



## RESOLUTION

AUTHORIZING THE DIRECTOR OF BUDGET AND FISCAL SERVICES TO ISSUE AND SELL NOT TO EXCEED \$701,500,000 PRINCIPAL AMOUNT OF WASTEWATER SYSTEM REVENUE BONDS, SENIOR SERIES 2015 AND RELATED MATTERS.

BE IT RESOLVED by the City Council of the City and County of Honolulu, as follows:

### ARTICLE I.

#### DEFINITIONS AND STATUTORY AUTHORITY

**Section 1.01. Series 2015 Resolution.** (1) This Resolution, authorizing up to \$701,500,000 principal amount of Series 2015 Bonds, is supplemental to, constitutes a Series Resolution within the meaning of, and is adopted in accordance with Article X of, Resolution No. 98-193 adopted by the City Council on November 10, 1998, entitled "RESOLUTION AUTHORIZING AND PROVIDING FOR THE ISSUANCE OF REVENUE BONDS OF THE CITY AND COUNTY OF HONOLULU, HAWAII, FOR THE PURPOSES OF THE WASTEWATER SYSTEM OF SAID CITY AND COUNTY; COVENANTING AS TO ESTABLISHMENT, MAINTENANCE, REVISION AND COLLECTION OF CHARGES AND RATES FOR THE USE AND SERVICES OF SAID WASTEWATER SYSTEM AND THE COLLECTION AND DISBURSEMENT OF THE REVENUES DERIVED THEREFROM; PLEDGING THE NET REVENUES DERIVED FROM SAID WASTEWATER SYSTEM ON A SENIOR AND SUPERIOR BASIS TO THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID BONDS AS THE SAME FALL DUE; CREATING AND ESTABLISHING CERTAIN FUNDS AND ACCOUNTS; SETTING FORTH THE LIMITATIONS OR CONDITIONS UPON THE ISSUANCE BY THE CITY AND COUNTY OF ADDITIONAL BONDS PAYABLE FROM THE AFORESAID REVENUES; AND MAKING OTHER COVENANTS AND AGREEMENTS IN CONNECTION WITH THE FOREGOING" (as amended and supplemented, referred to herein as the "Resolution").

(2) It is hereby found and determined that it is necessary and required that the City and County authorize and issue at this time a Series of Bonds to be designated as herein provided to provide monies to carry out one or more purposes of the City and County.

**Section 1.02. Definitions.** (1) All terms which are defined in Section 1.01 of the Resolution shall have the same meanings, respectively, in this Series Resolution as such terms are given in said Section 1.01 of the Resolution, including the term "Authorized Officer," defined as the Director of Budget and Fiscal Services, any Deputy Director of Budget and Fiscal Services, the Director of Environmental Services, any



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Deputy Director of Environmental Services or any other officer of the City and County designated by resolution of the City Council.

(2) In addition, as used in this Series Resolution, unless the context shall otherwise require, the following terms shall have the following respective meanings:

**"Series 2015 Bonds"** means the Bonds authorized by Article II of this Series 2015 Resolution.

**"Series 2015 Resolution"** means this Resolution authorizing up to \$701,500,000 principal amount of the Series 2015 Bonds.

**"Taxable Bonds"** means any Series 2015 Bonds which are not intended by the City and County to be Tax-exempt Bonds.

**"Tax Certificate"** means the Tax Certificate executed by an Authorized Officer of the City and County in connection with the issuance of the Series 2015 Bonds that are Tax-exempt.

(3) Words of any gender shall be deemed and construed to include correlative words of the other genders. Unless the context shall otherwise indicate, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations and corporations, including public bodies, as well as natural persons.

(4) The terms "hereby," "hereof," "hereto," "herein," "hereunder," and any similar terms, as used in this Series 2015 Resolution, refer to the Series 2015 Resolution.

**Section 1.03. Authority for the Series 2015 Resolution.** This Series 2015 Resolution is adopted pursuant to the provisions of the Act and the Resolution.

### ARTICLE II.

#### AUTHORIZATION, TERMS AND ISSUANCE OF SERIES 2015 BONDS

**Section 2.01. Authorization of Series 2015 Bonds.** A Series of Bonds entitled to the benefit, protection and security of the Resolution is hereby authorized to be issued in an aggregate principal amount not to exceed \$701,500,000, pursuant to and subject to the terms, conditions and limitations established in the Resolution and this Series 2015 Resolution. Such Series of Bonds shall be designated as and shall be



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distinguished from the Bonds of all other Series by the title "Wastewater System Revenue Bonds, Senior Series 2015," with such additional letter or other designations as shall be appropriate to distinguish any subseries from any others (collectively, the "Series 2015 Bonds").

**Section 2.02. Purposes.** The purposes for which the Series 2015 Bonds may be issued are to pay the Costs of Improvements authorized in the capital budget of the City and County (including reimbursement to the General Fund of the City and County of the financing costs of certain improvements temporarily funded from the General Fund and including refunding any outstanding obligations of the City and County the proceeds of which were applied to fund such improvements), to fund one or more trust funds to provide for the refunding and redemption of any or all of the outstanding Wastewater System Revenue Bonds (Second Bond Resolution) Junior Series 2003A-1, Wastewater System Revenue Bonds (Second Bond Resolution) Junior Series 2003B-1, Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2005A, Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2006A, Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2006B, Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2006C, Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2007A, Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2009A, Wastewater System Revenue Bonds (Second Bond Resolution) Junior Series 2008A, Wastewater System Revenue Bonds (Second Bond Resolution) Junior Series 2009A and Wastewater System Revenue Bonds (USDA Bond Resolution) Series 2010 (collectively, the "Outstanding Bonds"), and, in connection therewith, to make such credit to the Reserve Account, if any, as may be necessary in connection with the issuance of the Series 2015 Bonds, and to pay the costs of issuance of the Series 2015 Bonds.

**Section 2.03. Delegation of Authority; Certain Limitations.** (1) There is hereby delegated to any Authorized Officer of the City and County from the Department of Budget and Fiscal Services, subject to the limitations contained herein and in the Resolution and the Act, the power with respect to the Series 2015 Bonds to determine and carry out the following:

- (a) The sale of the Series 2015 Bonds at public or private sale, and if at private sale the selection of the underwriter or underwriters; *provided; however,* that in the case of a private sale the purchase price paid by the purchasers thereof shall not be less than ninety percent (90%) of the principal amount of the Series 2015 Bonds so sold;



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(b) The principal amount of Series 2015 Bonds to be issued; *provided, however,* that the principal amount of Series 2015 Bonds shall not exceed \$701,500,000;

(c) The specific Improvements, if any, to be financed from the proceeds of the Series 2015 Bonds;

(d) The date or dates, maturity date or dates and principal amount of each maturity of the Series 2015 Bonds or the method for calculating such dates and amounts, the amount and date of each Sinking Fund Installment, if any, or the method for calculating the Sinking Fund Installments and which Series 2015 Bonds are Serial Bonds or Term Bonds, if any, and the Record Date or Record Dates of the Series 2015 Bonds for which the Record Date or Record Dates is other than the fifteenth (15th) day (whether or not a Business Day) of the month next preceding an interest payment date for such Bonds or the forty-fifth (45th) day (whether or not a Business Day) preceding a redemption date;

(e) The interest rate or rates, if any, of the Series 2015 Bonds or the manner of determining such rate or rates, the date from which interest on the Series 2015 Bonds shall accrue, the dates on which interest on the Series 2015 Bonds shall be payable, if any, and if any Series 2015 Bonds are Variable Rate Bonds, the Maximum Interest Rate and the Minimum Interest Rate for such Bonds, and the provisions, if any, as to the calculation or change of variable interest rates; *provided, however,* that the true interest cost (as determined by an Authorized Officer of the City and County, which determination shall be conclusive) on the Series 2015 Bonds shall not exceed eight percent (8%) per annum in the case of Tax-exempt Bonds or ten percent (10%) per annum in the case of Taxable Bonds;

(f) The Series 2015 Bonds which are Capital Appreciation Bonds, if any, the Valuation Dates for such Bonds and the Accreted Value on each such Valuation Date;

(g) The Series 2015 Bonds which are Deferred Income Bonds, if any, the Valuation Dates for such Bonds, the Appreciated Value on each such Valuation Date and the Interest Commencement Date for such Bonds;

(h) If Series 2015 Bonds are Capital Appreciation Bonds or Deferred Income Bonds, the manner in which and the period during which principal and interest shall be deemed to accrue on such Series 2015 Bonds;



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(i) If Series 2015 Bonds are Option Bonds, (i) provisions regarding tender for, purchase or redemption thereof and payment of the purchase or Redemption Price thereof, and (ii) provisions regarding the appointment of a Remarketing Agent;

(j) The denomination or denominations of and the manner of numbering and lettering the Series 2015 Bonds;

(k) The Series 2015 Bonds which are Book Entry Bonds, if any, and the Depository therefor;

(l) The Paying Agent or Paying Agents for the Series 2015 Bonds and the place or places of payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Series 2015 Bonds;

(m) The Redemption Price or Redemption Prices, if any, and, subject to Article V of the Resolution, the redemption terms, if any, for the Series 2015 Bonds; *provided, however*, that the Redemption Price of Series 2015 Bonds at the election or direction of the City and County shall not be greater than one hundred three percent (103%) of the principal amount of the Series 2015 Bonds to be redeemed, plus accrued interest thereon to the date of redemption; provided that the Redemption Price for any redemption of Taxable Bonds may be such higher price as may be appropriate for the sale of such Bonds;

(n) Provisions for the sale or exchange of the Series 2015 Bonds and for the delivery thereof;

(o) The form of the Series 2015 Bonds and the form of the Paying Agent's certificate of authentication thereon;

(p) Whether the Series 2015 Bonds shall be entitled to the benefit of the Common Reserve Account, and if so entitled, the amount of the Common Reserve Account Requirement and the method of funding or providing for such Common Reserve Account Requirement, and any provisions with respect to subaccounts therein, if applicable, and the Revenues and application thereof, as provided in Article VI of the Resolution;

(q) If the Series 2015 Bonds shall not be entitled to the benefit of the Common Reserve Account, whether a Separate Series Reserve Account shall be established for the Series 2015 Bonds, and if so determined to be established, the amount of such Separate Series Reserve Account Requirement and the method of funding or providing for such Separate Series Reserve Account Requirement, the terms and provisions and credit quality of any Support Facility



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to be deposited therein, and any provisions with respect to subaccounts therein, if applicable, and the Revenues and application thereof, as provided in Article VI of the Resolution;

(r) Directions for the application of the proceeds of the Series 2015 Bonds;

(s) Which Outstanding Bonds shall be refunded from proceeds of the Series 2015 Bonds and other available moneys, and directions for the application of the proceeds of the Series 2015 Bonds, including directions with respect to the refunding of such Outstanding Bonds

(t) Whether a Support Facility shall be obtained or an Interest Rate Exchange Agreement shall be entered into with respect to the Series 2015 Bonds and, if any Series 2015 Bonds are option Bonds, (i) the appointment of a Support Facility Provider which shall supply a Support Facility with respect to such Series 2015 Bonds; and (ii) provisions for the establishment of separate accounts in which amounts drawn under a Support Facility for the Series 2015 Bonds are to be deposited

(u) Which Series 2015 Bonds are to be issued as Tax-exempt Bonds and which, if any, are to be issued as Taxable Bonds; and

(v) Any other provisions deemed advisable by such Authorized Officer of the City and County, not in conflict with the provisions hereof or of the Resolution.

(2) Such Authorized Officer from the Department of Budget and Fiscal Services shall execute one or more Series Certificates evidencing determinations or other actions taken pursuant to the authority granted herein or in the Resolution, such Series Certificate or Series Certificates shall be acknowledged and agreed to by any Authorized Officer of the City and County from the Department of Environmental Services, and any such Series Certificate shall be conclusive evidence of the action or determination of such Authorized officers as to the matters stated therein.

(3) All Series 2015 Bonds of like maturity and tenor issued pursuant to this Series 2015 Resolution shall be identical in all respects, except as to denominations, numbers and letters.

**Section 2.04. Authority to Enter Into Agreements.** (1) In the event the Series 2015 Bonds are sold at private sale as provided in clause (a) of subsection (1) of Section 2.03, any Authorized Officer of the City and County from the Department of Budget and Fiscal Services is hereby authorized to execute, and any Authorized Officer



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of the City and County from the Department of Environmental Services is hereby authorized to acknowledge and agree to, one or more Bond Purchase Contracts in the name and on behalf of the City and County in substantially the form attached as Exhibit A hereto, which form is hereby approved, with such changes, insertions and omissions as may be approved by such Authorized officers, such execution and acknowledgment and agreement being conclusive evidence of such approval. Any Authorized Officer of the City and County from the Department of Budget and Fiscal Services is hereby further authorized to enter into such Bond Purchase Contract or Bond Purchase Contracts with Merrill Lynch, Pierce, Fenner & Smith Incorporated or such other underwriter or underwriters as such Authorized Officer of the City and County may select.

(2) The form of the Continuing Disclosure Certificate, attached as Exhibit B hereto, is hereby approved. Any Authorized Officer of the City and County from the Department of Budget and Fiscal Services is hereby authorized to execute a Continuing Disclosure Certificate substantially in such form, with such changes, insertions and omissions as may be approved by such Authorized Officer, such execution being conclusive evidence of such approval.

(3) The form of the Escrow Agreement by and between the City and County and a financial institution as escrow agent thereunder, attached as Exhibit C hereto, is hereby approved. Any Authorized Officer of the City and County is hereby authorized to select a qualified financial institution to serve as escrow agent and to execute the Escrow Agreement in the name and on behalf of the City and County substantially in such form, with such changes, insertions and omissions as may be approved by such Authorized Officer, such execution being conclusive evidence of such approval.

**Section 2.05. Official Statements.** (1) The form of a Preliminary Official Statement, attached as Exhibit D hereto, is hereby approved. The distribution in connection with the offering and sale of the Series 2015 Bonds of a Preliminary Official Statement in such form, with such changes, insertions and omissions as an Authorized Officer of the City and County from the Department of Environmental Services deems advisable, is hereby authorized.

(2) Any Authorized Officer of the City and County from each of the Department of Budget and Fiscal Services and the Department of Environmental Services is hereby authorized to execute and deliver, in the name and on behalf of the City and County, a final Official Statement in substantially the form of the Preliminary Official Statement, with such changes, insertions and omissions as such Authorized Officers deem advisable, and to permit the distribution of said Official Statement in connection with the offering and sale of the Series 2015 Bonds. Any such officers are also hereby authorized to provide for the distribution of any supplement to the Official



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Statement providing for updates of any financial and operating information of the City and County and the Wastewater System required to be delivered on around the date of delivery of the Series 2015 Bonds.

**Section 2.06.      *Execution of Documents.*** Any Authorized Officer of the City and County is hereby authorized to execute and deliver, in the name and on behalf of the City and County, any and all documents and instruments, and to do and cause to be done any and all acts and things, said Authorized Officer deems necessary or advisable in connection with the offering, sale and issuance of the Series 2015 Bonds and to carry out the transactions contemplated by this Series 2015 Resolution.

### **ARTICLE III.**

#### **EXECUTION AND AUTHENTICATION OF THE SERIES 2015 BONDS**

**Section 3.01.      *Execution and Authentication of Series 2015 Bonds.*** (1) Pursuant to the provisions of Section 4.02 of the Resolution, the Mayor of the City and County is hereby authorized and directed to execute the Series 2015 Bonds by his or her manual or facsimile signature, the Director of Budget and Fiscal Services or a Deputy Director of Budget and Fiscal Services of the City and County is hereby authorized and directed to countersign the Series 2015 Bonds by his or her manual or facsimile signature, and the seal or a facsimile of the seal of the City and County shall be affixed to or printed on the Series 2015 Bonds.

(2) If a Paying Agent for the Series 2015 Bonds is appointed as provided in clause (l) of subsection (1) of Section 2.03, such Paying Agent is hereby authorized to authenticate by manual or facsimile signature the Series 2015 Bonds, and deliver the same to or upon the order of the City and County, in such amounts and at such times as such Paying Agent shall be directed in writing by an Authorized Officer.

### **ARTICLE IV.**

#### **APPLICATION OF PROCEEDS**

**Section 4.01.      *Application of Proceeds and Deposit of Moneys.*** On the date of delivery of the Series 2015 Bonds, the proceeds of the sale of the Series 2015 Bonds shall be applied in accordance with the written direction of any Authorized Officer given pursuant to Section 2.03(1)(r) of this Series 2015 Resolution.





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### ARTICLE V.

#### SPECIAL COVENANTS

**Section 5.01. Tax Status.** The interest on the Series 2015 Bonds designated, pursuant to Section 2.03(1)(u) hereof, as Tax-exempt Bonds is intended to be excluded from gross income for purposes of federal income taxation. In order to maintain such exclusion, the City and County affirms that the tax covenant made in Section 8.13 of the Resolution shall apply to such Series 2015 Bonds. In furtherance of the foregoing, the City and County shall comply with the provisions of the Tax Certificate executed by any Authorized Officer of the City and County in connection with the Tax-exempt Series 2015 Bonds.

**Section 5.02. Survival of Covenant.** The obligation of the City and County to comply with the provisions of the Tax Certificate with respect to any required payments to the Department of the Treasury of the United States of America shall remain in full force and effect so long as the City and County shall be required by the Code to make such payments, notwithstanding that the Tax-exempt Series 2015 Bonds are no longer outstanding.

### ARTICLE VI.

#### MISCELLANEOUS

**Section 6.01. Effect of Article and Section Headings and Table of Contents.** The heading or titles of the several articles and sections hereof, and any table of contents appended hereto or to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction, interpretation or effect of the Series 2015 Resolution.

**Section 6.02. Effectiveness.** The Series 2015 Resolution shall become effective immediately upon its adoption.



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and

BE IT FINALLY RESOLVED by the Council of the City and County of Honolulu that the Clerk be and is directed to transmit copies of this resolution to the Director of Budget and Fiscal Services and to the Chief of Treasury.

INTRODUCED BY:

*[Handwritten signature]*

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Councilmembers

DATE OF INTRODUCTION:

**JUN 10 2015**

\_\_\_\_\_  
Honolulu, Hawaii

\_\_\_\_\_  
Councilmembers

RECEIVED  
CITY CLERK  
JUN 10 2015

**EXHIBIT A**

**FORM OF BOND PURCHASE CONTRACT**

**BOND PURCHASE CONTRACT**  
for  
City and County of Honolulu, Hawaii,

Wastewater System Revenue  
Bonds  
(First Bond Resolution)  
\$ \_\_\_\_\_  
Senior Series 2015A

Wastewater System Revenue  
Bonds  
(First Bond Resolution)  
\$ \_\_\_\_\_  
Senior Series 2015B  
(Refunding)

Wastewater System Revenue  
Bonds  
(First Bond Resolution)  
\$ \_\_\_\_\_  
Senior Series 2015C (Taxable  
Refunding)

June \_\_, 2015

Director of Budget and Fiscal Services  
Director of Environmental Services  
City and County of Honolulu  
530 South King Street  
Honolulu, Hawaii 96813

Dear Directors:

The undersigned, Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Representative"), on behalf of itself and Piper Jaffray & Co. (together, the "Underwriters"), hereby offer to enter into this Bond Purchase Contract (this "Bond Purchase Contract") with the City and County of Honolulu (the "City and County"). Upon the City and County's acceptance of this offer, this Bond Purchase Contract will be binding upon the City and County and the Underwriters. This offer is made subject to acceptance by the City and County at or prior to 5:00 P.M., New York time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Representative upon written notice delivered to the City and County at any time prior to such acceptance.

1. Purchase of the Bonds. On the basis of the representations, warranties, covenants and agreements herein contained, but subject to the terms and conditions herein set forth, the Underwriters hereby agree to purchase, and the City and County hereby agrees to sell, all and not less than all of \$\_\_\_\_\_ aggregate principal amount of City and County of Honolulu, Hawaii, Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2015A, 2015B (Refunding), and Series 2015C (Taxable Refunding) (the "Bonds"). The purchase price for the Bonds shall be \$\_\_\_\_\_, representing the aggregate principal amount of the Bonds, plus net original issue premium and less the amount of the Underwriters' compensation pursuant to **Section 3** hereof. The Bonds shall be as provided in, and shall be issued under the provisions of, Chapter 49, Hawaii Revised Statutes and the Revised Charter of the City and County of Honolulu (collectively, the "Act"), and proceedings of the City Council and the applicable Series Resolution relating to the Bonds (collectively, the "Proceedings"), and a Certificate of the Director of Budget and Fiscal Services of the City and County, acknowledged and agreed to by the Director of Environmental Services of the City and County (the "Certificate"), which shall be substantially in the form heretofore received by the Underwriters, with only such changes therein as may be agreed upon by the parties hereto. The Bonds shall be dated, shall have the maturities, shall bear interest at the rates and payable at the times determined, and shall be subject to redemption, all in accordance with

the Certificate, and shall otherwise be as described in the official statement of even date herewith relating to the Bonds (which, together with all appendices thereto and with such changes therein and supplements thereto as are consented to in writing by the Representative, is herein called the "Official Statement"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Certificate or, if not defined in the Certificate, in the Official Statement.

In addition to the terms defined elsewhere in this Bond Purchase Contract, as used in this Bond Purchase Contract, the following terms shall have the indicated meanings:

"*Exchange Act*" shall mean the Securities Exchange Act of 1934, as the same shall from time to time be supplemented or amended.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board.

"*Rule 15c2-12*" shall mean Rule 15c2-12 promulgated by the SEC pursuant to the Exchange Act, as said rule shall from time to time be supplemented or amended, together with all interpretive guidances or other interpretations or explanations thereof that are promulgated by the SEC, except to the extent such interpretive guidances, interpretations or explanations have no binding legal effect and are generally regarded by the municipal securities industry as not being legally correct.

"*SEC*" shall mean the United States Securities and Exchange Commission.

Proceeds of the Bonds will be applied, as described in the Official Statement: (i) to fund the cost of certain additions and improvements to the City and County's wastewater system; (ii) to refund certain outstanding wastewater system revenue bonds of the City and County pursuant to an Escrow Agreement (the "Escrow Agreement") between the City and County and U.S. Bank National Association, as escrow agent; and (iii) to pay certain costs of issuance relating to the Bonds.

The Underwriters agree to make a bona fide public offering of all of the Bonds at not in excess of the initial public offering prices or less than the yields as set forth in the Official Statement. The Bonds may be offered and sold to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

At 11:00 A.M., New York time, on \_\_\_\_\_, 2015, or at such earlier or later time or date as shall be agreed upon by the Representative and the City and County (such time and date being herein referred to as the "Closing Date"), the City and County will deliver to the Underwriters the Bonds (in definitive typewritten form and bearing CUSIP numbers), duly executed by the City and County, and the other documents herein mentioned, and the Underwriters will accept such delivery and pay the purchase price of the Bonds in immediately available funds. Delivery and payment as aforesaid shall in each case be made at the offices of Alston Hunt Floyd & Ing, Honolulu, Hawaii, or such other place as shall have been mutually agreed upon by the City and County and the Representative, except that the Bonds shall be delivered through the facilities of The Depository Trust Company ("DTC") in New York, New York or at such other place and in such manner as shall have been mutually agreed upon by the City and County and the Representative. The Bonds shall be made available to the Underwriters in New York, New York, not later than one (1) securities market business day before the Closing Date for the purposes of inspection and packaging.

The Bonds shall be issued initially in fully registered form, each Bond to be in a denomination equal to and representing the total amount of Bonds maturing on a particular date, and registered in the name of CEDE & Co., as nominee for The Depository Trust Company, New York, New York.

2. Disclosure Documents. The City and County shall prepare and deliver to the Underwriters as promptly as practicable, but in no event later than seven (7) securities market business days after the date hereof, final copies of the Official Statement, in such quantities and format as requested by the Underwriters but not more than 1,000 copies. The City and County agrees to provide to the Underwriters, no later than two (2) securities market business days prior to the date of Closing, an electronic copy of the Official Statement in a form that permits the Underwriters to satisfy their obligations under the rules and regulations of the MSRB and the SEC. The City and County hereby ratifies, confirms and approves the use and distribution by the Underwriters prior to the date hereof of the Preliminary Official Statement of the City and County, dated \_\_\_\_\_, 2015 (which is herein called the "Preliminary Official Statement"), confirms that the City and County deemed the Preliminary Official Statement final and complete as of the date thereof, except for the omission of certain information permitted to be omitted under SEC Rule 15c2-12 ; and hereby authorizes the Underwriters, in connection with the offer and sale of the Bonds, to use and distribute the Official Statement and other documents, certificates and statements furnished by the City and County to the Underwriters in connection with the transactions contemplated by this Bond Purchase Contract. In order to assist the Underwriters in complying with Rule 15c2-12, the City and County will undertake, pursuant to a Certificate of the Director of Budget and Fiscal Services (the "Disclosure Certificate"), to provide certain annual financial information and notices of the occurrence of certain events pursuant to SEC Rule 15c2-12. A description of this undertaking is set forth in the Preliminary Official Statement and in the Official Statement.

3. Underwriters' Compensation. The Underwriters shall receive as total compensation for its services the sum of \$ \_\_\_\_\_, which is the difference between the price paid to the Underwriters by purchasers of the Bonds and the price paid by the Underwriters to the City and County as provided in Section 1 hereof.

4. Representations, Warranties and Covenants of the City and County. The City and County hereby represents and warrants to and covenants with the Underwriters as follows:

(a) The City and County is a political subdivision of the State of Hawaii (the "State"), the Director of Budget and Fiscal Services (the "Finance Director") is the head of the Department of Budget and Fiscal Services of the City and County, and the Director of Environmental Services (the "Environmental Director") is the head of the Department of Environmental Services of the City and County, and, under the Constitution and laws of the State, including the Act, and pursuant to the Proceedings, the City and County has, and at the Closing Date will have, full legal right, power and authority (i) to issue the Certificate and to enter into this Bond Purchase Contract and the Escrow Agreement, (ii) to execute and deliver the Escrow Agreement and the Disclosure Certificate, (iii) to issue, sell and deliver the Bonds pursuant to the Certificate as provided herein, and (iv) to carry out and consummate the transactions contemplated by this Bond Purchase Contract, the Certificate, the Escrow Agreement, the Disclosure Certificate and the Official Statement.

(b) The City and County has complied, and at the Closing Date will in all respects be in compliance, with the Act, the Proceedings, the Certificate, the Escrow Agreement and the Disclosure Certificate.

(c) The Preliminary Official Statement as of its date was true, correct and complete in all material respects and did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) At the time of the City and County's acceptance hereof, the Official Statement is true, complete, correct and final in all material respects, and at the time of delivery thereof to the Underwriters and at all times subsequent thereto up to and including the Closing Date, the Official Statement will be true, correct, complete and final in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(e) During the period of 25 days beginning with the later of (i) the date the Bonds are delivered by the City and County to the Underwriters or (ii) the date upon which the Underwriters retain no unsold balance of any Bonds for sale to the public, if any event shall occur as a result of which it may be necessary to supplement the Official Statement in order to make the statements therein, in light of the circumstances existing at such time, not misleading, the Director of Budget and Fiscal Services and the Director of Environmental Services of the City and County shall forthwith notify the Representative of any such event of which he or she has actual knowledge and shall cooperate fully in the preparation and furnishing of any supplement to the Official Statement necessary, in the opinion of the Representative, so that the statements therein as so supplemented will not be misleading in the light of the circumstances existing at such time.

(f) The City and County will cooperate with the Underwriters in taking all necessary action for the qualification of the Bonds for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Representative designates and the continuation of such qualifications in effect so long as required for the distribution thereof, provided that the City and County shall not be required to take any action that would subject it to general service of process in any jurisdiction where it is not now so subject.

(g) The City and County has (i) duly adopted the Proceedings and issued the Certificate, (ii) duly authorized and approved the execution and delivery of this Bond Purchase Contract, the Escrow Agreement and the Disclosure Certificate, (iii) duly authorized and approved the performance by the City and County of its obligations contained in the Proceedings, the Certificate, this Bond Purchase Contract, the Escrow Agreement and the Disclosure Certificate and the transactions contemplated by such documents and the Official Statement, and (iv) duly authorized and approved, upon satisfaction of the conditions set forth herein, the issuance and delivery of the Bonds.

(h) The City and County is not in breach or violation of or default under any applicable law, rule or regulation of the United States or of the State or of any department, division, agency or instrumentality thereof, or any applicable order, judgment or decree of any court or other governmental agency or body, which breach, violation or default would result in a material adverse change in the financial position or results of operations of the Wastewater System (as defined in the Proceedings) or materially adversely affect the properties or assets of the Wastewater System, and the City and County is not in breach or violation of or in default under any bond, note, loan agreement, resolution, certificate, agreement or other instrument to which the City and County is a party or by which it is bound or to which any of its property is subject, which breach, violation or

default might result in a material adverse change in the financial position or results of operation of the Wastewater System or materially adversely affect the properties or assets of the Wastewater System. The execution and delivery of this Bond Purchase Contract, the Escrow Agreement, the Disclosure Certificate, and the Bonds, the adoption of the Proceedings, the issuance of the Certificate and the Bonds, and the fulfillment of the terms and provisions hereof and thereof, will not conflict with or constitute a breach or violation of or default under any such applicable law, rule, regulation, order, judgment, decree, bond, note, loan agreement, resolution, certificate, agreement or other instrument, and the City and County has no reason to believe that any such conflict, breach, violation or default will exist on the Closing Date.

(i) No authorization, approval, consent or order of or filing or registration with any court or governmental agency or body is required for the valid authorization, execution, issuance, sale or delivery of the Bonds or the exclusion from gross income of interest thereon for federal income tax purposes or the valid adoption by the City and County of the Proceedings, the issuance of the Certificate or the execution and delivery of this Bond Purchase Contract, the Escrow Agreement and the Disclosure Certificate, except (i) such action as shall have been taken by the City and County prior to the Closing Date, (ii) the filing of an information return with respect to the Bonds as required by Section 149(e) of the Internal Revenue Code of 1986 (the "Code") and (iii) such action as may be required to qualify the Bonds for sale under the blue sky or other securities laws of any jurisdiction.

(j) The City and County has obtained all permits and licenses required for the construction and operation of Wastewater System, as it now exists and, if applicable, as contemplated to be expanded with the proceeds of the Bonds, or will have obtained all such permits and licenses not later than the date required therefor before any expansions are built or placed in service, as the case may be, and all such permits and licenses, to the extent obtained, are currently in full force and effect. All rates and charges with respect to the Wastewater System as described in the Official Statement have been approved by all necessary governmental bodies, and all such rates and charges are in full force and effect and have not been rescinded, nor has any action been taken to modify or rescind any such rates or charges.

(k) At the time of the City and County's acceptance hereof, no action, suit, proceeding, inquiry or investigation at law or in equity was pending or, to the actual knowledge of the Director of Budget and Fiscal Services or the Director of Environmental Services of the City and County, threatened, in any court, public board or body, in any way affecting the legal existence of the City and County or the title of the officers of the City and County to their respective offices, or seeking to restrain or enjoin the issuance, sale or delivery of the Bonds or in any material way adversely affecting the collection of revenues or assets of the Wastewater System, the validity or enforceability of the Bonds, the Proceedings, the Certificate, the Escrow Agreement, the Disclosure Certificate or this Bond Purchase Contract or the power or authority of the City and County with respect thereto.

(l) The financial statements of the Sewer Fund contained or referenced in the Preliminary Official Statement and the Official Statement present fairly the financial position of such Fund as of the respective dates and the results of its operations and changes in financial position for the periods specified therein. Subsequent to the respective dates of the most recent financial statements included in the Official Statement, there has been no material adverse change in the financial position or results of such Fund except as set forth or contemplated in the Official Statement.



(m) The Certificate and the Bonds conform to the descriptions thereof contained in the Official Statement and the Bonds, when duly issued and authenticated in accordance with the Certificate and delivered to the Underwriters as provided herein, will be validly issued and outstanding obligations of the City and County, entitled to the benefits of the Certificate and payable from the sources therein specified.

(n) The City and County has executed and delivered, or will execute and deliver on or before the Closing Date, each of the Proceedings, the Certificate, this Bond Purchase Contract, the Escrow Agreement and the Disclosure Certificate. Each of the Proceedings, the Certificate, this Bond Purchase Contract, the Escrow Agreement and the Disclosure Certificate constitutes, or will, as of the Closing Date, constitute, a legal, valid and binding obligation of the City and County enforceable in accordance with its terms, subject to any applicable bankruptcy, insolvency or other laws affecting creditors' rights or remedies heretofore or hereafter enacted. To the actual knowledge of the Director of Budget and Fiscal Services and the Director of Environmental Services of the City and County, each of the Proceedings, the Certificate, this Bond Purchase Contract, the Escrow Agreement and the Disclosure Certificate has been executed and delivered, or will be executed and delivered on or before the Closing Date, by each respective signatory and is currently in full force and effect or, as of the Closing Date, will be in full force and effect.

(o) During the past five years, except as otherwise disclosed in the Official Statement, the City and County has not failed to materially comply with any previous undertaking relating to continuing disclosure of information pursuant to Rule 15c2-12.

5. Conditions to the Obligations of the Underwriters.

(a) The obligation of the Underwriters to purchase the Bonds on the Closing Date shall be subject to the accuracy of the representations and warranties on the part of the City and County herein, to the accuracy of the statements of officers of the City and County made pursuant to the provisions hereof, to the performance by the City and County of its obligations hereunder to be performed on or before the Closing Date and to the following additional conditions precedent:

(1) The Proceedings, the Certificate, the Escrow Agreement and the Disclosure Certificate shall have been duly adopted, issued, executed and delivered, as applicable, by the City and County and shall be in full force and effect and shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Representative, and the City and County shall have duly adopted and there shall be in full force and effect such additional resolutions as in the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel") shall be necessary or appropriate in connection with the Proceedings, the Certificate, the Escrow Agreement and the Disclosure Certificate, with the issuance of the Bonds and with the transactions contemplated thereby and hereby. No default shall have occurred and be continuing under the Proceedings or the Certificate, and no event shall have occurred and be continuing which with the lapse of time or the giving of notice or both would constitute such a default.

(2) Subsequent to the City and County's acceptance of this Bond Purchase Contract, there shall not have occurred any event materially and adversely affecting the City and County or the transactions contemplated hereby which, in the reasonable opinion of the City and County or of the Representative, is required to be set forth in an amendment or supplement to the Official Statement (whether or not the Official Statement shall have been amended or supplemented to set forth such event).

(3) Subsequent to the City and County's acceptance of this Bond Purchase Contract, the market price of general credit or revenue obligations issued by states or political subdivisions thereof, or the market price of obligations of the character of the Bonds, shall (in the reasonable judgment of the Representative) not have been materially and adversely affected by (i) a tentative decision with respect to legislation reached by a committee of the House of Representatives or Senate of the U.S. Congress or an official pronouncement by the Chairman of any such committee with respect to any such legislation, legislation introduced in or enacted by the Congress of the United States, or passed by either House of the Congress or recommended to the Congress for passage by the President of the United States or by the Secretary of the U.S. Treasury Department, or favorably reported for introduction or passage to either House of Congress by any Committee of such House to which such legislation has been referred for consideration, or an official pronouncement by the Congressional sponsor of any such pending legislation, or legislation pending in the Congress of the United States shall be amended, or legislation introduced in or enacted by the legislature of the State of Hawaii or a decision rendered by a court of the United States or the State of Hawaii or by the United States Tax Court, or a ruling, order, official statement, or regulation (final, temporary or proposed) made by the Treasury Department of the United States or the Internal Revenue Service or other federal or State of Hawaii authority, with respect to federal or State of Hawaii taxation upon interest received on the Bonds or obligations of the general character of the Bonds, which in any such case may have the purpose or effect of changing, directly or indirectly, the federal income tax consequences or State of Hawaii tax consequences of interest on the Bonds or obligations of the general character of the Bonds in the hands of the holders thereof; or (ii) a tentative decision with respect to legislation reached by a committee of the House of Representatives or Senate of the U.S. Congress or an official pronouncement by the Chairman of any such committee with respect to any such legislation, legislation introduced in or enacted by the Congress of the United States, or passed by either House of the Congress or recommended to the Congress for passage by the President of the United States or by the Chairman of the SEC, or favorably reported for introduction or passage to either House of Congress by any Committee of such House to which such legislation has been referred for consideration, or an official pronouncement by the Congressional sponsor of any such pending legislation, or legislation pending in the Congress of the United States shall be amended, or a decision rendered by a court of the United States, or a ruling, order, official statement, or regulation (final, temporary or proposed) made by or on behalf of the SEC, or any other governmental agency having jurisdiction of the subject matter, to the effect that the Bonds or obligations of the general character of the Bonds are not exempt from registration under, or other requirements of, the Securities Act of 1933, as amended, or that the Certificate is not exempt from qualification under, or other requirements of, the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of the Bonds or obligations of the general character of the Bonds as contemplated hereby or by the Official Statement is or would be in violation of the federal securities laws as amended and then in effect; or (iii) the United States shall have become engaged in hostilities, whether or not a war shall have been declared, or there shall have occurred an escalation of any hostilities involving the armed forces of any country, or any other national emergency or national calamity relating to the effective operation of the United States Government or of the financial community which, in the Representative's opinion, materially adversely affects the market price of the Bonds; (iv) there shall have occurred a general suspension of or material limitation of trading on The New York Stock Exchange or other national securities exchange as the result of an event affecting the national economy, or minimum or maximum prices for trading shall have been established on any such exchange and be in force, or minimum or maximum ranges for prices for securities shall be in force on any such exchange; (v) the New York Stock Exchange or other national securities exchange, or any governmental authority, shall have imposed, as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force or being

enforced, or have increased materially from those now in force or being enforced with respect to the extension of credit by, or the charge to the net capital requirements of, or financial responsibility requirements of, the Underwriters; or (vi) a general suspension of trading on the New York Stock Exchange, or fixing of minimum or maximum prices for trading or maximum ranges for prices for securities on the New York Stock Exchange, whether by virtue of a determination by that Exchange or by order of the SEC or any other governmental authority having jurisdiction; or (vii) a general banking moratorium declared by either federal or New York or Hawaii authorities having jurisdiction.

(4) On or prior to the Closing Date, no order, ruling, regulation, decree or injunction of any court of competent jurisdiction or of any governmental body or authority shall have been issued, and no judicial proceeding shall have been commenced, nor shall any legislation have been enacted, with the purpose or effect of prohibiting the issuance, offering, sale or distribution of the Bonds as contemplated hereby or by the Official Statement or performance by the City and County of its obligations under the Proceedings, the Certificate, the Escrow Agreement, the Disclosure Certificate or this Bond Purchase Contract in accordance with their respective terms.

(5) At or prior to the Closing, the Representative shall have received the following documents, in each case satisfactory in form and substance to the Representative: duly executed or certified copies of: (i) the Proceedings; (ii) the Certificate; (iii) the Escrow Agreement; (iv) Disclosure Certificate; (v) this Bond Purchase Contract; and (vi) the Official Statement.

(6) The Representative shall have received the opinion of Bond Counsel with respect to the Bonds, dated the Closing Date, substantially in the form attached to the draft Official Statement heretofore received by the Underwriters, together with a supplemental opinion of Bond Counsel, addressed to the Representative on behalf of the Underwriters, dated the Closing Date, in substantially the form attached as **Exhibit A** hereto.

(7) The Representative shall have received an opinion, dated the Closing Date, of Corporation Counsel to the City and County substantially in the form attached as **Exhibit B** hereto.

(8) The Representative shall have received an opinion, dated the Closing Date, of Alston Hunt Floyd & Ing and Katten Muchin Rosenman LLP, co-counsel to the Underwriters, in substantially the form attached as **Exhibit C** hereto.

(9) The Representative shall have received a certificate, dated the Closing Date, signed by the Director of Budget and Fiscal Services and the Director of Environmental Services, to the effect that (i) the representations and warranties of the City and County contained herein are true and correct in all material respects on and as of the Closing Date; (ii) to the actual knowledge of said officers the information and statements, including financial statements, of or pertaining to the Wastewater System and the Sewer Fund contained in the Official Statement were and are correct in all material respects; (iii) insofar as the City and County and its affairs, including the financial affairs of the Wastewater System and the Sewer Fund, are concerned, the Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (iv) insofar as the descriptions and statements, including financial data, contained in the Official Statement, of or pertaining to non-governmental bodies or governmental bodies other than the Department of Environmental Services

are concerned, such descriptions, statements and data have been obtained from sources believed by the City and County to be reliable, and the City and County has no reason to believe that they are untrue or incomplete in any material respect; (v) no litigation is pending or, to the actual knowledge of such officers, threatened in any court in any way adversely affecting the legal existence of the City and County or seeking to restrain or to enjoin the issuance, sale or delivery of the Bonds, or materially and adversely affecting the right of the City and County to collect Wastewater System revenues to pay the principal of and interest on the Bonds, or in any way materially and adversely contesting or affecting the validity or enforceability of the Bonds, the Proceedings, the Certificate, the Escrow Agreement, the Disclosure Certificate or this Bond Purchase Contract or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the power of the City and County or its authority with respect to the Bonds, the Proceedings, the Certificate, the Escrow Agreement, the Disclosure Certificate or this Bond Purchase Contract (but in lieu of or in conjunction with such certificate, the Representative may, in its sole discretion, accept certificates or opinions of Corporation Counsel to the City and County, acceptable to the Representative, that in the opinion of such counsel the issues raised in any such pending or threatened litigation are without substance or that the contentions of all plaintiffs therein are without merit); (vi) to the actual knowledge of said officer, no event materially and adversely affecting the City and County or the transactions contemplated hereby has occurred since the date of the Official Statement which, in the reasonable opinion of the City and County, is required to be set forth in an amendment or supplement to the Official Statement (whether or not the Official Statement shall have been amended or supplemented to set forth such event); (vii) the City and County has the full legal right, power and authority to carry out and consummate the transactions contemplated hereby and by the Official Statement; and (viii) the City and County has complied with all the requirements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date.

(10) The Representative shall have received rating letters evidencing that the Bonds have been rated “\_\_\_” by Fitch Ratings and “\_\_\_” by Moody’s Investors Service.

(11) The Representative shall have received such additional certificates, instruments and other documents as it may reasonably request to evidence the truth and accuracy as of the Closing Date of the representations and warranties of the City and County herein and the due performance or satisfaction by the City and County at or prior to the Closing Date of all agreements then to be performed and all conditions then to be satisfied by the City and County.

(b) The City and County will furnish the Representative with such conformed copies of such opinions, certificates, letters and documents as the Representative reasonably requests. If the City and County shall be unable to satisfy or cause to be satisfied any condition to the obligations of the Underwriters contained in this Bond Purchase Contract and the satisfaction of such condition shall not be waived by the Representative, this Bond Purchase Contract shall terminate, and neither the Underwriters nor the City and County shall have any further obligations or liabilities hereunder except as otherwise provided in Section 8.

6. Conditions to the Obligations of the City and County. The obligations of the City and County to issue and sell the Bonds to the Underwriters will be subject to performance by the Underwriters of their obligations hereunder and to the receipt by the City and County on the Closing Date of the opinion of Bond Counsel, dated the Closing Date, substantially in the form attached to the Official Statement, and such other certificates, letters and documents from the Underwriters or others as the City and County may reasonably request to evidence facts necessary for Bond Counsel to render such opinion.

7. Survival of Certain Representations and Obligations. The City and County and the Underwriters hereby agree that the respective agreements, representations, warranties and other statements of the City and County and of the Underwriters and their respective officers set forth in or made pursuant to this Bond Purchase Contract will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of the Underwriters or the City and County and will survive the Closing Date. In addition, the obligations of the City and County under **Section 8(a)** below will survive in the event of a failure to close.

8. Expenses.

(a) The City and County will pay or cause to be paid from funds available to it all expenses incident to the performance of its obligations under this Bond Purchase Contract and the fulfillment of the conditions imposed hereunder, including but not limited to the cost of preparing, printing and mailing the Preliminary Official Statement, the Official Statement and any supplement thereto (except to the extent payable by the Underwriters pursuant to **Section 8(b)** below), the cost of preparing and mailing the Bonds, the Proceedings, the Certificate, the Escrow Agreement, the Disclosure Certificate, and any amendments or supplements thereto, in reasonable quantities, and all other documents prepared in connection with the transactions contemplated by this Bond Purchase Contract, the expenses of the City and County, the fees and expenses of Bond Counsel and Corporation Counsel for the City and County, the fees charged by investment rating agencies with respect to the Bonds, the fees and expenses of the escrow agent for the Refunded Bonds, and the fees and expenses of any auditors retained by the City and County in connection with the transactions contemplated herein. In addition, certain of the foregoing expenses, as determined by the Underwriters and the City and County, may be paid by the Underwriters on behalf of the City and County and deducted from the Purchase Price otherwise payable to the City and County at Closing. To the extent that the Underwriters, in order to facilitate the transactions hereunder, have advanced funds to pay any expenses of the City and County incidental to this Bond Purchase Contract and the transactions hereunder (including, but not limited to, transportation, lodging, meals and other ancillary costs of City and County representatives associated with the financing), the City and County shall reimburse the Underwriters for such advances as part of the expense component of the Underwriters' compensation hereunder.

(b) The Underwriters will pay or cause to be paid the cost of preparing, printing and mailing any amendment or supplement to the Official Statement resulting from a determination by the Underwriters to change the initial offering prices or yields set forth in the Official Statement; all advertising costs and other expenses incurred by the Underwriters in connection with the sale of the Bonds and the qualification of the Bonds for sale under the blue sky and other securities laws of the several states; counsel for the Underwriters; the fees and expenses of DTC with respect to the deposit of the Bonds; and the charge of the CUSIP Service Bureau for the assignment of CUSIP numbers for the Bonds. Certain expenses of the Underwriters may be in the form of inclusion in the expense component of the Underwriters' discount.

9. No Advisory or Fiduciary Role. The City and County acknowledges and agrees that (i) the primary role of the Underwriters, as underwriters, is to purchase securities, for resale to investors, in an arm's-length commercial transaction between the City and County and the Underwriters and the Underwriters have financial and other interests that differ from those of the City and County, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriters are and have been acting solely as principals and not as municipal advisors, financial advisors or fiduciaries of the City and County,

(iii) the Underwriters have not assumed any advisory or fiduciary responsibility in favor of the City and County with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriters have provided other services or are currently providing other services to the City and County on other matters), and (iv) the City and County has consulted its own municipal, legal, financial, tax, accounting and other advisors to the extent it has deemed appropriate.

10. Notices. All communications hereunder will be in writing, and, if sent to the Representative or the Underwriters, will be mailed or delivered to Merrill Lynch, Pierce, Fenner & Smith Incorporated, 333 S. Hope St., Suite 2310, Los Angeles, California 90071, Attention: Frank X. Lauterbur, Managing Director; or, if sent to the City and County, will be mailed or delivered and confirmed to it at the address set forth above.

11. Governing Law. This Bond Purchase Contract shall be construed and administered under the laws of the State of Hawaii.

(The remainder of this page is blank; the signature page follows.)

12. Counterparts. This Bond Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

13. Successors. This Bond Purchase Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, and no other person will have any right or obligation hereunder.

MERRILL LYNCH, PIERCE, FENNER &  
SMITH INCORPORATED, as Representative  
of the Underwriters herein named

By: \_\_\_\_\_  
Authorized Signatory

Accepted this \_\_\_\_ day of June, 2015

CITY AND COUNTY OF HONOLULU

By: \_\_\_\_\_  
Director of Budget and Fiscal Services

By: \_\_\_\_\_  
Director of Environmental Services

Approved as to form and legality:

\_\_\_\_\_  
Corporation Counsel  
City and County of Honolulu

EXHIBIT A  
TO  
BOND PURCHASE CONTRACT

[FORM OF BOND COUNSEL'S SUPPLEMENTAL OPINION]

[DATE]

Merrill Lynch, Pierce, Fenner & Smith Incorporated  
Los Angeles, California

Piper Jaffray & Co.  
Los Angeles, California

Re: City and County of Honolulu Wastewater System Revenue Bonds  
(First Bond Resolution) \$\_\_\_\_\_ Senior Series 2015A, \$\_\_\_\_\_ Senior  
Series 2015B (Refunding) and \$\_\_\_\_\_ Senior Series 2015C (Taxable Refunding)  
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you, as Underwriters, pursuant to Section 5(a)(6) of the Bond Purchase Contract dated June \_\_, 2015 (the "Purchase Contract"), by and among you and the City and County of Honolulu (the "City and County"), providing for the purchase of \$\_\_\_\_\_ principal amount of City and County of Honolulu Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2015A, 2015B (Refunding) and Senior Series 2015C (Taxable Refunding) (the "Bonds"). The Bonds are being issued pursuant to proceedings of the City Council of the City and County, including resolutions adopted by the City Council (collectively, the "Resolution"), and a Certificate of the Director of Budget and Fiscal Services of the City and County dated as of \_\_\_\_\_, 2015 (the "Certificate"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Certificate or, if not defined in the Certificate, in the Bond Purchase Contract.

We have delivered our final legal opinion (the "Bond Opinion") as bond counsel to the City and County concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the City and County. You may rely on the Bond Opinion as though the same were addressed to you.

In connection with our role as bond counsel to the City and County, we have reviewed the Purchase Contract, the Certificate, the Tax Certificate, an opinion of the Corporation Counsel of the City and County, certificates of the City and County and others, and such other documents, opinions and matters to the extent we deemed necessary to provide the opinions set forth herein.



The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City and County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Certificate, the Resolution, the Tax Certificate, and the Purchase Contract and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against counties in the State of Hawaii. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy (except as expressly set forth in numbered paragraph 3 below), completeness or fairness of the Official Statement dated \_\_\_\_\_, 2015 (the "Official Statement") or other offering material relating to the Bonds and express no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions or conclusions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Certificate is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.
2. The Purchase Contract has been duly executed and delivered by, and is a valid and binding agreement of, the City and County.
3. The statements contained in the Official Statement under the captions "THE SERIES 2015 BONDS" (excluding "-Book-Entry System"), "SECURITY FOR THE BONDS", "TAX MATTERS," and in Appendix B, entitled "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION," and Appendix E to the Official Statement, excluding any material that may be treated as included under such captions by cross-reference or reference to other documents or sources, insofar as such statements expressly summarize certain provisions of the Bonds, the Certificate and the form and content of our Bond Opinion, are accurate in all material respects.

This letter is furnished by us as bond counsel to the City and County. No attorney-client relationship has existed or exists between our firm and you in connection with the Bonds or by virtue of this letter. We disclaim any obligation to update this letter. This letter is delivered to you as the Underwriters of the Bonds, is solely for your benefit as Underwriters and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

EXHIBIT B  
TO  
BOND PURCHASE CONTRACT

[FORM OF OPINION OF CORPORATION COUNSEL]

[Date]

Merrill Lynch, Pierce, Fenner & Smith Incorporated,  
On behalf of the Underwriters  
Los Angeles, California

Re: City and County of Honolulu, Hawaii  
Wastewater System Revenue Bonds (First Bond Resolution)  
Senior Series 2015A, 2012B (Refunding) and 2015C (Taxable Refunding)

Ladies and Gentlemen:

The Department of the Corporation Counsel acts as counsel for the City and County of Honolulu (the "City and County"), and in such capacity, the following opinion is delivered. This opinion is delivered pursuant to the requirement of Section 5(a)(7) of the Bond Purchase Contract with the City and County, dated June \_\_, 2015 (the "Bond Purchase Contract"), relating to the Bonds identified above (the "Bonds"). Terms used and not otherwise defined herein shall have the meanings assigned to them in the Bond Purchase Contract. We are of the following opinions:

(1) The City and County is a duly organized and existing political subdivision of the State of Hawaii, with full power under the Constitution and laws of the State, including the Act, to enact and approve the Proceedings, to authorize the Bonds, the Certificate, the Escrow Agreement, the Disclosure Certificate, the Bond Purchase Contract, the Preliminary Official Statement and the Official Statement, and to perform its obligations thereunder and contemplated thereby.

(2) The Director of Budget and Fiscal Services and the Director of Environmental Services have the power to execute and deliver the Certificate and the Bond Purchase Contract, and the Director of Budget and Fiscal Services has the power to execute, issue and deliver the Bonds and to execute and deliver the Escrow Agreement and the Disclosure Certificate.

(3) Based upon the information provided to us in the course of our participation in the preparation of the Official Statement and in reliance thereon, and without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, we have no reason to believe that the Official Statement,

under the captions "The City and County and the Department" and "Pending Wastewater System Litigation" (except for the financial and statistical data included therein and assumptions with respect thereto, as to which no opinion is expressed), as of its date contained, or as of the date hereof contains, any untrue statement of a material fact, or as of its date omitted, or as of the date hereof omits, to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(4) No litigation is pending or, to my actual knowledge, threatened in any court in any way affecting the legal existence of the City and County or the title of its officers and other officials to their respective offices, or seeking to restrain or enjoin the issuance, sale or delivery of the Bonds or the pledge of the revenues from the wastewater system of the City and County to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Certificate, the Escrow Agreement, the Disclosure Certificate or the Bond Purchase Contract or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the powers of the City and County or its authority with respect to the Bonds, the Certificate, the Escrow Agreement, the Disclosure Certificate or the Bond Purchase Contract, other than that which may have been disclosed in the Official Statement.

In the rendering of this opinion, we express no opinion as to the application of the Federal law of the United States or the laws of any state regarding the documents referred to in this opinion other than the State of Hawaii.

We are furnishing this letter to you pursuant to Section 5 of the Bond Purchase Contract solely for the benefit of the Underwriters thereunder. This letter is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Bonds. We disclaim any obligation to update this letter.

Very truly yours,

Corporation Counsel  
City and County of Honolulu

EXHIBIT C  
TO  
BOND PURCHASE CONTRACT

[FORM OF OPINION OF UNDERWRITERS' COUNSEL]

[Date]

Merrill Lynch, Pierce, Fenner & Smith Incorporated,  
On behalf of the Underwriters  
Los Angeles, California

Re: City and County of Honolulu, Hawaii  
Wastewater System Revenue Bonds (First Bond Resolution)  
Senior Series 2015A, 2015B (Refunding) and 2015C (Taxable Refunding)

Ladies and Gentlemen:

We have acted as counsel to you in connection with your purchase from the City and County of Honolulu (the "City and County") of the Bonds identified above (the "Bonds"), pursuant to the Bond Purchase Contract with the City and County, dated June \_\_, 2015 (the "Bond Purchase Contract"). The Bonds are issued pursuant to various proceedings of the City Council of the City and a certificate of the Director of Budget and Fiscal Services and the Director of Environmental Services of the City and County (the "Issuance Certificate"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Purchase Contract.

In that connection, we have reviewed the Bond Purchase Contract, the Issuance Certificate, the Escrow Agreement, the Disclosure Certificate, the Official Statement, the certificates and opinions referred to in Section 5(a) of the Bond Purchase Contract, and such other records, opinions and documents, and we have made such investigations of law, as we have deemed appropriate as a basis for the conclusions hereinafter expressed.

In arriving at the conclusions hereinafter expressed, we are not expressing any opinion or view on, and with your permission are assuming and relying on, the validity, accuracy and sufficiency of the records, documents, certificates and opinions referred to above (including the accuracy of all factual matters represented and legal conclusions contained therein, including (without limitation) representations and legal conclusions regarding the due authorization, issuance, delivery, validity and enforceability of the Bonds and the exclusion of interest thereon from gross income for federal income tax purposes). We have assumed that all records, documents, certificates and opinions that we have reviewed, and the signatures thereto, are genuine.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Issuance Certificate is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements. In our capacity as your counsel, we participated in conferences with your representatives and representatives of the City, Orrick, Herrington & Sutcliffe LLP, as bond counsel, and others, during which conferences the contents of the Official Statement and related matters were discussed. Based on our participation in the above-mentioned conferences (which did not extend beyond the date of the Official Statement), and in reliance thereon and on the records, documents, certificates and opinions herein mentioned (as set forth above), we advise you that, during the course of our representation of you on this matter, no information came to the attention of the attorneys in our firm rendering legal services in connection with such representation which caused us to believe that the Official Statement as of its date, and as of the date of this letter (except for any financial, statistical, engineering, demographic or economic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, any information about valuation, appraisals or environmental matters, the information in Appendices C and D, or any information about the tax status of the Bonds or DTC or its book-entry system, as to which we express no opinion or view), contained or contains any untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The Disclosure Certificate, together with Section 2 of the Bond Purchase Contract, satisfies the requirements contained in SEC Rule 15c2-12(b)(5) for an undertaking for the benefit of the holders of the Bonds to provide the information at the times and in the manner required by said Rule.

We are furnishing this letter to you pursuant to Section 5(a)(8) of the Bond Purchase Contract solely for the benefit of the Underwriters thereunder. This letter is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Bonds. Our engagement with respect to this matter has terminated as of the date hereof, and we disclaim any obligation to update this letter.

Very truly yours,

**EXHIBIT B**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

## APPENDIX D

### PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of Honolulu, Hawaii (the "City and County") in connection with the issuance of \$000,000,000 Wastewater System Revenue Bonds (**First Bond Resolution**), Senior Series 2015A and Senior Series 2015B (the "Bonds") and \$000,000,000 (**Second Bond Resolution**) Junior Series 2015C and Junior Series 2015D. The Bonds are being issued pursuant to Chapter 49, Hawaii Revised Statutes, and the Revised Charter of the City and County of Honolulu, as amended (collectively, the "Act"), and the proceedings of the City Council, including Resolutions No. 98-195 and the applicable Series Resolutions relating to the Bonds, and a Certificate of the Director of Budget and Fiscal Services of the City and County, acknowledged and agreed to by the Director of Environmental Services of the City and County dated \_\_\_\_\_, 2015 (the "Certificate"). The City and County covenants and agrees as follows:

Section 1. **Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City and County for the benefit of the holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

Section 2. **Definitions.** In addition to the definitions set forth in the Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"**Annual Report**" means any Annual Report provided by the City and County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"**Beneficial Owner**" means any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, to make investment decisions concerning the ownership of, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"**Department**" means the Department of Environmental Services of the City and County.

"**Dissemination Agent**" means the City and County, or any successor Dissemination Agent designated in writing by the City and County and which has filed with the City and County a written acceptance of such designation.

"**Listed Events**" means any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"**MSRB**" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

"**Official Statement**" shall mean the Official Statement, dated \_\_\_\_\_, 2015, prepared and distributed in connection with the initial sale of the Bonds.

"**Participating Underwriters**" means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"**Rule**" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. **Provision of Annual Reports.**

(a) The City and County shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of each fiscal year of the City and County (presently June 30), commencing with the report for the fiscal



year ending June 30, 2015, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. If the City and County's fiscal year changes, the City and County, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) In a timely manner prior to the date set forth in subsection (a) above, the City and County shall provide the Annual Report to the Dissemination Agent (if other than the City and County). If the City and County is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City and County shall send a notice to the MSRB in substantially the form attached as Exhibit A. The audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the City and County) file a report with the City and County certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

#### Section 4. *Content of Annual Reports.*

(a) The Annual Report shall contain or incorporate by reference the following information:

(i) Audited financial statements of the Department for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Department's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement relating to the Bonds, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available;

(ii) Budgeted revenues and expenditures of the Department for the current fiscal year;

(iii) To the extent not provided in the audited financial statements, historical information of the type shown in Tables 34 and 35 of the Official Statement, entitled "Department of Environmental Services Sewer Fund Enterprise Fund Statement of Revenues, Expenses and Charges in Retained Earnings (Deficit)" and "Department of Environmental Services Sewer Fund Enterprise Fund Balance Sheet," respectively; and

(iv) To the extent not provided in the audited financial statements, historical information of the type shown in Tables 32 and 33 of the Official Statement, entitled "Outstanding Wastewater Revenue Bonds" and "Revenue Bond Debt Service Requirements," respectively.

(b) Information contained in an Annual Report for any fiscal year containing any modified operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Report shall present a comparison between the financial statements or information prepared on the basis of modified accounting principles and those prepared on the basis of former accounting principles.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues of the City and County or related public entities, which have been made available to the public on the MSRB's website. The City and County shall clearly identify each such other document so included by reference.

If the inclusion or format of the information referenced above is changed in any future official statement, thereafter the Annual Report shall instead contain or include by reference information of the type included in that official statement as so changed or if different the type of equivalent information included in the City and County's most recent official statement.

Section 5.        *Reporting of Significant Events.*

(a) Pursuant to the provisions of this Section 5, the City and County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- i.     Principal and interest payment delinquencies;
- ii.    Unscheduled draws on debt service reserves reflecting financial difficulties;
- iii.    Unscheduled draws on credit enhancements reflecting financial difficulties;
- iv.    Substitution of credit or liquidity providers, or their failure to perform;
- v.     Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- vi.    Tender offers;
- vii.    Defeasances;
- viii.   Rating changes; or
- ix.    Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b)     The City and County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

- i.     Unless described in paragraph 5(a)(v), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- ii.    Modifications to rights of Bondholders;
- iii.    Optional, unscheduled or contingent Bond calls;
- iv.    Release, substitution, or sale of property securing repayment of the Bonds;
- v.     Non-payment related defaults;
- vi.    The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
- vii.    Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The City and County shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4, as provided in Section 4.

(d) Whenever the City and County obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City and County shall determine if such event would be material under applicable federal securities laws.

(e) If the City and County learns of the occurrence of a Listed Event described in Section 5(a), or determines that a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City and County shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

**Section 6. *Termination of Reporting Obligation.*** The City and County's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment of amounts fully sufficient to pay and discharge the Bonds, or upon delivery to the City and County or the Dissemination Agent (if other than the City and County) of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Bonds, the City and County shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

**Section 7. *Dissemination Agent.*** From time to time, the City and County may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City and County shall be the Dissemination Agent. The initial Dissemination Agent shall be the City and County. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The Dissemination Agent shall not be responsible for the form or content of any Annual Report, notice of Listed Event, or other document furnished to the Dissemination Agent by the City and County. The Dissemination Agent shall receive reasonable compensation for its services provided hereunder. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the City and County.

**Section 8. *Amendment Waiver.*** Notwithstanding any other provision of this Disclosure Certificate, the City and County may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, change in law (including rules or regulations) or in interpretations thereof, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Certificate for amendments to the Certificate with the consent of Holders, or (ii) does not, in the opinion of the City and County, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City and County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City and County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if

feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. ***Additional Information.*** Nothing in this Disclosure Certificate shall be deemed to prevent the City and County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City and County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City and County shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. ***Default.*** In the event of a failure of the City and County to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City and County or the Dissemination Agent (if other than the City and County), as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Certificate, and the sole remedy under this Disclosure Certificate in the event of any failure of the City and County or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. ***Duties, Immunities and Liabilities of Dissemination Agent.*** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City and County agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the City and County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. ***Beneficiaries.*** This Disclosure Certificate shall inure solely to the benefit of the City and County, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: August \_\_, 2015

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Nelson H. Koyanagi, Jr.  
Director of Budget and Fiscal Services  
City and County of Honolulu

The above and foregoing certificate is hereby approved as to form and legality this \_\_\_\_ day of August, 2015.

---

Donna Y. L. Leong  
Corporation Counsel  
City and County of Honolulu

**EXHIBIT A**

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE  
TO FILE ANNUAL REPORT**

Name of Issuer: City and County of Honolulu, Hawaii

Name of Bond Issue: Wastewater System Revenue Bonds (First Bond Resolution),  
Senior Series 2015 and (Second Bond Resolution) Junior Series 2015

Date of Issuance: August \_\_, 2015

NOTICE IS HEREBY GIVEN that the City and County of Honolulu, Hawaii (the "City and County") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated August \_\_, 2015, executed by the City and County for the benefit of the holders and beneficial owners of the above-referenced Bonds. The City and County anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CITY AND COUNTY OF HONOLULU, HAWAII

By: \_\_\_\_\_  
Authorized Signatory

**EXHIBIT C**

**FORM OF ESCROW AGREEMENT**

**ESCROW AGREEMENT**

**by and between**

**CITY AND COUNTY OF HONOLULU**

**and**

**U.S. BANK NATIONAL ASSOCIATION,  
as Escrow Agent**

**Dated [Closing Date], 2015**

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## ESCROW AGREEMENT

This Escrow Agreement (this "Agreement"), dated and effective on [Closing Date], 2015, by and between the CITY AND COUNTY OF HONOLULU (the "City and County") and U.S. BANK NATIONAL ASSOCIATION, Seattle, Washington, as escrow agent (together with its successors, the "Escrow Agent"),

### WITNESSETH:

The City Council of the City and County (the "Council"), pursuant to Bond Resolution No. 98-193, adopted by the Council on November 10, 1998 (the "Bond Resolution"), authorized Wastewater System Revenue Bonds for various purposes of the Wastewater System of the Board, such bonds to be issued in series from time to time pursuant to Series Resolutions duly adopted by the Council.

Pursuant to the Bond Resolution, a resolution of the Council adopted on \_\_\_\_\_, 20\_\_, and a Series Certificate of an authorized officer of the City and County dated \_\_\_\_\_, 20\_\_ (the "\_\_\_\_ Certificate"), the City and County has previously issued \$\_\_\_\_\_ of its Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 20\_\_ (the "20\_\_ Bonds"), \$\_\_\_\_\_ of which currently are outstanding, certain maturities of which outstanding 20\_\_ Bonds which are being refunded as described herein mature on various dates and bearing interest payable at various times to maturity, all as set forth in Exhibit A attached hereto.

Pursuant to the Bond Resolution, a resolution of the Council adopted on \_\_\_\_\_, 20\_\_, and a Series Certificate of an authorized officer of the City and County dated \_\_\_\_\_, 20\_\_ (the "20\_\_ Certificate" and, together with the Series 20\_\_ Certificate, the "Prior Certificates"), the City and County has previously issued (1) \$\_\_\_\_\_ of its Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 20\_\_ (the "20\_\_ Bonds"), \$\_\_\_\_\_ of which currently are outstanding, which outstanding 20\_\_ Bonds, pursuant to their terms, mature on various dates and bearing interest payable at various times to maturity, all as set forth in Exhibit A attached hereto, (2) \$\_\_\_\_\_ of its Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 20\_\_ (the "20\_\_ Bonds"), \$\_\_\_\_\_ of which currently are outstanding, which outstanding 2006B Bonds, pursuant to their terms, mature on various dates and bearing interest payable at various times to maturity, all as set forth in Exhibit A attached hereto, and (3) \$\_\_\_\_\_ of its Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 20\_\_ (the "20\_\_ Bonds" and, together with the 20\_\_ Bonds, the 20\_\_ Bonds and the 20\_\_ Bonds, the "Prior Bonds"), \$\_\_\_\_\_ of which currently are outstanding, which outstanding 2006C Bonds, pursuant to their terms, mature on various dates and bearing interest payable at various times to maturity, all as set forth in Exhibit A attached hereto.

The Director of Budget and Fiscal Services in his "Bond Series Certificate of the City and County of Honolulu relating to \$\_\_\_\_\_ Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2015A, Senior Series 2015B and Senior Series 2015C (Taxable)" (the "Certificate"), has heretofore found and determined that it is necessary and in the best interest of the City and County to refund in advance of maturity certain of the Prior Bonds

identified in Exhibit B hereto (collectively, the "Refunded Bonds"), which sets forth for the Refunded Bonds the series, principal amount to be refunded, maturities to be refunded, and, if applicable, redemption date and redemption price of such Refunded Bonds.

The Council has, pursuant to Resolution No. 15-\_\_\_\_, adopted on \_\_\_\_\_, 2015, authorized the Director of Budget and Fiscal Services to issue, sell and deliver Wastewater System Revenue Bonds of the City and County in an aggregate principal amount not to exceed \$\_\_\_\_\_ for the purposes provided in the Bond Resolution, and to determine the principal amount of and to fix and determine the details of such bonds.

The Escrow Agent has been appointed by the Director of Budget and Fiscal Services to serve as Escrow Agent hereunder.

Concurrently with the execution hereof, the City and County is issuing \$\_\_\_\_\_ aggregate principal amount of its Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 2015B (the "2015B Bonds") and \$\_\_\_\_\_ aggregate principal amount of its Wastewater System Revenue Bonds (First Bond Resolution) Series 2015C (Taxable) (the "2015C Bonds" and, together with the 2015B Bonds, the "2015 Bonds"), to provide moneys for deposit with the Escrow Agent, and is taking such other actions, as shall be necessary and sufficient to cause the Refunded Bonds to be refunded in advance of maturity and wishes to enter into this Agreement to carry out such purposes.

Now, therefore, in consideration of the foregoing and of the mutual covenants herein set forth, the City and County and the Escrow Agent agree as follows:

Section 1. Pledge of Portion of 2015 Bond Proceeds. To secure the payment of the principal or redemption price (as set forth in Section 6) of, and interest on, the Refunded Bonds (whether such due dates be by reason of maturity or otherwise), the City and County hereby irrevocably deposits with the Escrow Agent, in trust for the benefit and security of the holders of the Refunded Bonds, and irrevocably pledges and sets aside exclusively for such payment, subject to the terms and conditions hereinafter set forth, the amount of \$\_\_\_\_\_ for the Refunded Bonds (the "Deposit Amount") in immediately available funds. Such amounts shall be deposited and applied by the Escrow Agent in the manner and for the purpose hereinafter set forth.

The Escrow Agent, by the execution of this Agreement, acknowledges receipt of the foregoing amounts.

Section 2. Establishment of Funds; Deposit of Moneys and Government Securities.

(a) There is hereby created and established with the Escrow Agent a special and irrevocable trust fund, designated the "2015 Trust Fund", to be held in the custody of the Escrow Agent as a Trust Fund separate and apart from all other funds of the City and County or of the Escrow Agent for the benefit of the holders of the Refunded Bonds. The Escrow Agent shall apply the Deposit Amount of \$\_\_\_\_\_ of the \$\_\_\_\_\_ referred to in Section 1 hereof towards the purchase of the Government Securities, as hereinafter defined and as provided in Section 3, such securities to be deposited in the 2015 Trust Fund. The remaining

\$\_\_\_\_\_ shall be deposited as cash in the 2015 Trust Fund. All funds on deposit in trust in the 2015 Trust Fund shall be applied to and used solely for the payment of the principal and redemption price of, and interest on, the Refunded Bonds except as otherwise expressly provided herein. Amounts earned on the moneys and securities in the 2015 Trust Fund shall be retained therein until applied in accordance with this Agreement.

Section 3. Purchase of Government Securities; Adequacy of Amounts in 2015 Trust Fund.

(a) The City and County hereby directs the Escrow Agent to, and the Escrow Agent shall, do the following with respect to the funds deposited and held in the 2015 Trust Fund pursuant to Section 1 hereof: purchase noncallable Government Securities listed in Exhibit C (the "Government Securities") hereto and deposit and hold such Government Securities and any earnings received thereon and any reinvestment thereof in the 2015 Trust Fund and disburse such amounts as provided herein.

(b) The City and County and the Escrow Agent, by the execution of this Agreement, hereby acknowledge receipt from Causey Demgen & Moore P.C. (the "Verification Expert"), of a certification that the Government Securities listed in Exhibit C mature as to principal and interest (without regard to any reinvestment of investment earnings on such Government Securities) in such amounts and at such times as will ensure, together with any moneys held in the 2015 Trust Fund, the availability of sufficient moneys to make payment of the principal or redemption price of, and interest on, the Refunded Bonds to and including the respective due dates thereof.

(c) The City and County and the Escrow Agent hereby agree that they shall rely conclusively upon the certification provided by the Verification Expert pursuant to Section 3(b) hereof, that the Government Securities will mature as to principal and interest (without regard to any reinvestment of investment earnings on such Government Securities) in such amounts and at such times as to ensure, together with any moneys held in the 2015 Trust Fund, the availability of sufficient moneys to make payment of the principal and redemption price of, and interest on, the Refunded Bonds to the respective due dates thereof.

(d) The Escrow Agent shall collect amounts due and shall apply such amounts as needed to make the payments and transfers required by this Escrow Agreement and may substitute, upon the written direction of the City and County, Substitute Government Securities (as defined herein) subject to the terms and limitations of Section 4, but otherwise shall have no power or duty to sell, transfer or otherwise dispose of the Government Securities.

(e) In the event that the Escrow Agent is furnished with a certificate of a nationally recognized firm of independent certified public accountants that the Government Securities as they mature in such amounts and earn interest in such amounts and any other available moneys in the 2015 Trust Fund will not provide sufficient moneys to pay, as the same mature and become due, the principal and redemption price of, and interest on, the Refunded Bonds which have not previously been paid, the City and County will deposit with the Escrow Agent immediately upon demand therefor an amount of money as to which a nationally recognized firm of independent certified public accountants shall certify that such amount of

money, together with the Government Securities which will continue to be held in the 2015 Trust Fund, will mature in such principal amounts and earn interest in such amounts and at such times so that sufficient moneys will be available from such maturing principal and interest to pay, as the same mature and become due, the principal and redemption price of, and interest on, the Refunded Bonds which have not previously been paid; provided, however, that no such deposit by the City and County shall be required if the insufficiency in the 2015 Trust Fund is caused by the negligence or willful misconduct of the Escrow Agent, in which case, the Escrow Agent shall make the necessary deposit into the 2015 Trust Fund from its own funds.

(f) In the event that the Escrow Agent is furnished with a report of a nationally recognized firm of independent certified public accountants stating that the Government Securities as they mature in such amounts and earn interest in such amounts and any other available moneys in the 2015 Trust Fund will be in excess of the amounts required to pay, as the same mature and become due, the principal and redemption price of, and interest on, the Refunded Bonds which have not previously been paid, the Escrow Agent shall transfer to the City and County immediately upon demand therefor an amount of money not exceeding such excess.

Section 4. Reinvestment; Substitution of Government Securities. Moneys deposited with the Escrow Agent as described in Section 1 hereof and Government Securities purchased by the Escrow Agent as described in Section 3 hereof may, at the written direction of the City and County, be reinvested in or substituted for direct non-callable obligations of, or direct non-callable, non-prepayable obligations the full and timely payment of principal of and interest on which are fully and unconditionally guaranteed by, the United States of America, including Resolution Funding Corporation interest strips (the "Substitute Government Securities"), maturing as to principal and interest in such amounts and at such times as will ensure the availability of sufficient moneys to make payment of the principal and redemption price of, and interest on, the Refunded Bonds to the respective due dates thereof; provided, however, that concurrently with such written direction, the City and County shall provide the Escrow Agent with (a) a certification of a nationally recognized independent certified public accountant that such reinvestment and substitution complies with Section 3(b) hereof, setting forth in reasonable detail the calculations underlying such certification, and (b) an unqualified opinion of nationally recognized bond counsel to the effect that such reinvestment (i) will not cause the interest on any Refunded Bond or any 2015B Bond to be included in gross income for purposes of federal income taxation under the Internal Revenue Code of 1986 (the "Code"), and the regulations under the Code (the "Regulations"), as each is then in effect, and (ii) is otherwise in compliance with this Agreement. The substitution of money market funds and unit investment trusts for Government Securities is prohibited.

(a) Any Substitute Government Securities must mature on either (i) the next debt service payment date of the Refunded Bonds or (ii) when needed as shown in the certification of a nationally recognized independent certified public accountant referenced in subsection (a) of this Section.

(b) Any reinvestment authorized by this Section 4 shall be accomplished by sale, transfer, request for redemption or other disposition of all or a portion of the Government Securities then held in the 2015 Trust Fund, with the proceeds thereof, together with other

moneys in the 2015 Trust Fund, being applied simultaneously to the purchase of Substitute Government Securities, all as specified in the written direction of the City and County.

Section 5. Evidence of Transactions; Reports. The Escrow Agent, unless otherwise directed by the Director of Budget and Fiscal Services, shall deliver to the Director of Budget and Fiscal Services a copy of the document(s) evidencing each transaction relating to the 2015 Trust Fund in its monthly report provided pursuant to Section 5(a) below.

(a) The Escrow Agent shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions relating to the portion of the proceeds of the 2015 Bonds delivered to the Escrow Agent under this Agreement and all funds and accounts established pursuant to this Agreement. Such books of record and account shall be available for inspection by the City and County under reasonable circumstances and for reasonable periods at reasonable times during the business hours of the Escrow Agent on any business day. On or before the tenth day of each month, commencing September 10, 2015, the Escrow Agent, unless otherwise directed by the Director of Budget and Fiscal Services, shall deliver to the Director of Budget and Fiscal Services an accounting report setting forth the following information as of the last day of each preceding month: (1) amounts withdrawn from and deposited into each fund and account maintained by the Escrow Agent under this Agreement; (2) the balances on deposit in the 2015 Trust Fund and each account thereof as of the date for which such report is prepared; and (3) a brief description of all obligations held as investments in the 2015 Trust Fund and each account thereof.

(b) On August 10, 2016, the Escrow Agent shall deliver to the Director of Budget and Fiscal Services a final accounting report with respect to the 2015 Trust Fund as of \_\_\_\_\_, 20\_\_.

Section 6. Payment of Amounts Due on Refunded Bonds. (a) The Escrow Agent shall transfer on each interest, principal and redemption payment date for the Refunded Bonds sufficient moneys from the matured principal of and interest on the Government Securities, Substitute Government Securities or moneys held in the respective 2015 Trust Fund, to the respective paying agents for the Refunded Bonds (individually, each a "Paying Agent" and, collectively, the "Paying Agents"), for the payment of interest on, principal of and redemption price of the Refunded Bonds, all as summarized in Exhibit B hereto.

(b) As of the date hereof, the Paying Agent for the Refunded Bonds is Director of Budget and Fiscal Services of the City and County of Honolulu.

Section 7. Irrevocable Deposit; Express Lien. The deposit of moneys, the Government Securities, and any Substitute Government Securities in the 2015 Trust Fund shall constitute an irrevocable deposit in trust solely for the payment of the Refunded Bonds and interest and redemption premiums thereon pursuant to the terms of the Refunded Bond Proceedings, the proceedings relating to the 2015 Bonds and this Agreement. The holders of the Refunded Bonds shall have an express lien on the principal of and interest on the Government Securities, and on any moneys or Substitute Government Securities on deposit in the 2015 Trust Fund, until the proceeds thereof are paid out, used or applied in accordance with this Agreement.

Section 8. Notice of Refunding; Notice of Redemption. The Escrow Agent, on behalf of the City and County, shall cause notice of the issuance of the 2015 Bonds to be given, in the form set forth in Exhibit D hereto, as soon as practicable after the issuance of the 2015 Bonds by mailing such notice to the registered owners of the Refunded Bonds.

(a) The Escrow Agent acknowledges receipt of certified copies of the Resolution, the Certificate, the Bond Resolution and the Prior Certificates. The Escrow Agent shall, not earlier than sixty (60) nor later than thirty (30) days before the applicable redemption date for the Refunded Bonds specified in Section 6 hereof, without further authorization or direction from the City and County, notify the Paying Agent for the Refunded Bonds of the requirement that notice of such redemption be given, and shall request from such Paying Agent the names and addresses of all persons whose names appear in the bond register of the Paying Agent as registered owners of the Refunded Bonds as of the close of business on the forty-fifth (45th) day (whether or not a business day) next preceding such redemption date. The City and County hereby appoints the Escrow Agent as Agent for and on behalf of such Paying Agent to give notice of redemption. The Escrow Agent, as such agent for the Paying Agent, shall give notice of the redemption of the Refunded Bonds maturing after the applicable redemption date for the Refunded Bonds, such notice to be given not less than thirty (30) days prior to such redemption date by registered or certified mail to all persons whose names appear in the bond register of the Paying Agent as registered owners of the Refunded Bonds as of the close of business on the forty-fifth (45th) day (whether or not a business day) next preceding such redemption date. A copy of such notice shall simultaneously be given to the City and County. The form of such redemption notice is set forth in Exhibit E.

Section 9. Liability of Escrow Agent. Except as otherwise provided in this Section and in Section 3(e), the liability of the Escrow Agent to make the payments required by this Agreement with respect to the Refunded Bonds shall be limited to the funds deposited with it hereunder, the Government Securities and any Substitute Government Securities which are at any time being held in the 2015 Trust Fund. The Escrow Agent shall not be liable for any loss resulting from any investment made pursuant to this Agreement in compliance with the provisions hereof nor for any error of judgment made in good faith by the Escrow Agent nor in its individual capacity for the obligations represented by the Refunded Bonds; provided, however, that the Escrow Agent shall not be relieved from liability for its own negligence or willful misconduct. The Escrow Agent shall indemnify and hold harmless the City and County and its officers, employees, and agents from and against any and all actions, claims, suits, damages or costs solely to the extent that such actions, claims, suits, damages or costs arise out of or result from the failure by the Escrow Agent to perform any of its duties hereunder or the negligence or willful misconduct of the Escrow Agent, its officers, employees, or agents. The City and County, its officers, employees and agents shall in no way be held liable for any damages, causes of action or suits resulting from the acts or activities of the Escrow Agent which are not otherwise in accordance with this Agreement.

Section 10. Termination. This Agreement shall terminate on \_\_\_\_\_, 20\_\_ (except for the Escrow Agent's obligation to file a final accounting report as provided in Section 5(b) hereof). On \_\_\_\_\_, 20\_\_, all remaining income from all funds, Government Securities and Substitute Government Securities on deposit in the 2015 Trust Fund held by the Escrow Agent pursuant to this Agreement shall be paid to the City and County and thereupon the

2015 Trust Fund shall be closed and thereafter the holders of the Refunded Bonds shall be entitled to look solely to the City and County for payment thereof.

Section 11. Fees of Escrow Agent. There shall be paid to the Escrow Agent upon the issuance of the 2015 Bonds the sum of \$ \_\_\_\_\_ for the 2015 Trust Fund, without additional fee for subscription of Government Securities, which shall be the total compensation for all services rendered in the execution, exercise and performance of any of the duties of the Escrow Agent to be exercised or performed pursuant to the provisions of this Agreement, and shall also be paid all expenses, disbursements and advances incurred in accordance with any provisions of this Agreement, including the reasonable compensation and expenses and disbursements of independent counsel, appraisers, accountants, consultants, agents and attorneys-at-law or other experts employed by the Escrow Agent in the exercise and performance of its powers and duties hereunder, and out-of-pocket expenses, including but not limited to postage, wires, stationery, and costs of printing forms or letters or notices, which expenses shall not exceed 100% of the billed fees. Invoices for insurance, if any, co-agent fees, if any, and publication of notices of redemptions, if any, will be forwarded directly to the City and County for payment.

(a) Neither the Escrow Agent nor any Paying Agent for the Refunded Bonds shall have any lien or claim for payment of any fees, expenses or other amounts, including amounts payable to counsel or others, upon any funds held by the Escrow Agent under this Agreement.

(b) The Escrow Agent acknowledges that the aforesaid provisions for payment are satisfactory to it.

Section 12. Duties of Escrow Agent: Evidence Upon Which Escrow Agent May Act; Other Interests. The Escrow Agent agrees to perform all of the duties and obligations as are specifically set forth in this Agreement.

(a) Subject to the provisions of Section 9, the Escrow Agent may conclusively rely, as to the correctness of statements, conclusions and opinions therein, upon any certificate, report, opinion or other document furnished to the Escrow Agent pursuant to any provision of this Agreement; the Escrow Agent shall be protected and shall not be liable for acting or proceeding, in good faith upon such reliance; and the Escrow Agent shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument. The Escrow Agent may consult with counsel, who may be counsel to the City and County or independent counsel, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith in accordance herewith. Any request, consent, certificate, notice, appointment or other direction made or given by the City and County to the Escrow Agent shall be deemed to have been sufficiently made or given by the proper party or parties if executed on behalf of the City and County by the Director of Budget and Fiscal Services or his duly appointed designee.

(b) No provision of this Agreement shall require the Escrow Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its

duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that payment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(c) The Escrow Agent, either as principal or agent, may engage in or be interested in any financial or other transaction with the City and County, and may act as depository, trustee or agent for any holder or holders of the 2015 Bonds as freely as if it were not Escrow Agent hereunder.

Section 13. Removal or Resignation of Escrow Agent. The City and County may, upon sixty (60) days' notice to the Escrow Agent, remove the Escrow Agent or any successor thereto. The Escrow Agent may at any time resign and be discharged of its duties and obligations hereunder by giving not less than sixty (60) days' written notice to the City and County and holders of the Refunded Bonds and by publishing notice thereof, specifying the date when such resignation shall take effect, once in the same newspapers in which notices are required to be published under the next paragraph. Notwithstanding the effective date of any such resignation stated in such notice, such resignation shall not take effect until a successor Escrow Agent shall have been appointed, and shall take effect immediately on the appointment of such successor Escrow Agent. All expenses of publication of notice of the resignation of the Escrow Agent hereunder shall be paid by the Escrow Agent; provided, however, that if such resignation shall be made at the request of the City and County, then the City and County shall pay such expenses of publication of notice of resignation.

(a) In the event of any such removal by the City and County, or the resignation, disability, ineligibility or refusal to act of the Escrow Agent, the City and County by a duly executed written instrument of the Director of Budget and Fiscal Services shall forthwith appoint a successor to fill such vacancy. In the event that the City and County does not appoint a successor within thirty (30) days after notifying the Escrow Agent, or any successor, of its removal, the removed Escrow Agent may petition a court of competent jurisdiction for the appointment of a successor. All expenses incurred by the removed Escrow Agent in prosecuting any such petition shall be reimbursed by the City and County. A successor Escrow Agent shall be a bank having corporate trust powers or a trust company, in each case with capital stock, surplus and undivided profits aggregating in excess of Ten Million Dollars (\$10,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above mentioned, then for the purpose of this Section the combined capital stock, surplus and undivided profits of such bank or trust company shall be deemed to be its combined capital stock, surplus and undivided profits as set forth in its most recent report of condition so published. Any successor Escrow Agent so appointed shall have all the powers and obligations of the Escrow Agent hereunder theretofore vested in its predecessor. Upon acceptance of appointment by the successor Escrow Agent as provided in this Section, the City and County shall publish notice of the succession of such Escrow Agent to the trusts hereunder at least once in a financial newspaper of national circulation published in New York, New York and in a daily newspaper of general circulation in the City and County. If the City and County shall fail to publish such notice within ten (10) business days after acceptance of appointment by the successor Escrow Agent, the successor Escrow Agent shall cause such notice to be published at the expense of City and County. Each Escrow Agent appointed hereunder



shall signify its acceptance of such duties and obligations imposed upon it hereunder as Escrow Agent by executing and delivering to the City and County and to the predecessor Escrow Agent hereunder a written acceptance of such duties and obligations, and such written acceptance shall include a statement to the effect that the Escrow Agent qualified to act as such under the laws of the City and County, and thereupon such successor Escrow Agent, without further act, deed or conveyance, shall become vested with all of the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Escrow Agent, with like effect as if originally named Escrow Agent herein; but, nevertheless, at the request of the City and County or the successor Escrow Agent, such predecessor Escrow Agent shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Escrow Agent all of the right, title and interest of such predecessor Escrow Agent in and to any property held by it hereunder and shall pay over, transfer, assign and deliver to the successor Escrow Agent any moneys or other property subject to the trusts and conditions herein set forth. Upon acceptance by such successor Escrow Agent of the trusts created hereunder, all further title, rights, duties and obligations of the predecessor under this Agreement shall cease and terminate and be discharged, except for rights or liabilities theretofore accrued to or by the City and County or the predecessor Escrow Agent. Upon the request of the successor Escrow Agent, the City and County shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Escrow Agent all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Any bank or trust company into which the Escrow Agent may be merged or with which it may be consolidated shall become the Escrow Agent without action of the City and County.

Section 14. Tax Covenant. Any other provision of this Agreement to the contrary notwithstanding, the City and County hereby covenants that it will not use, or permit the use of, any proceeds of the Refunded Bonds or the 2015B Bonds, or any moneys or funds held by the Escrow Agent under this Agreement that may be deemed to be the proceeds of the Refunded Bonds or the 2015B Bonds pursuant to the Code and Regulations as each is then in effect, in a manner that would cause the interest on any of the Refunded Bonds or 2015B Bonds to be included in gross income for federal income taxation purposes under the Code, and to that end the City and County shall comply with the Code and the Regulations.

Section 15. Benefit of Agreement; Amendments. This Agreement is made for the benefit of the City and County and the holders from time to time of the Refunded Bonds. This Agreement shall not be repealed, revoked, altered or amended without the written consent of all such holders; provided, however, that the City and County and the Escrow Agent may, without the consent of, or notice to, such holders, enter into such agreements supplemental to this Agreement for any one or more of the following purposes so long as such supplemental agreements do not adversely affect the rating on the Refunded Bonds and the 2015 Bonds:

- (a) to cure any ambiguity or formal defect or omission in this Agreement;
- (b) to grant to, or confer upon, the Escrow Agent for benefit of such holders any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such holders or the Escrow Agent;

- (c) to subject to this Agreement additional funds, securities or properties; and
- (d) to make any other amendment that does not materially adversely affect the rights of any holders of Refunded Bonds.

The Escrow Agent shall be entitled to rely exclusively upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section, including (i) the extent, if any, to which any change, modification or addition affects the rights of the holders of the Refunded Bonds, and (ii) the extent, if any, to which any instrument executed hereunder complies with the conditions and provisions of this Section.

Section 16. Parties in Interest; Non-Assignment. This Agreement shall inure to the benefit of and be binding upon the City and County, and each successor in office of the Director of Budget and Fiscal Services, from the time he assumes office, shall be deemed to be substituted for the undersigned Director of Budget and Fiscal Services as a party hereto, with all of the rights and duties of the Director of Budget and Fiscal Services hereunder.

This Agreement shall not be assigned by the Escrow Agent without the prior written consent of the City and County. Any voluntary or involuntary assignment or transfer of a controlling interest in the Escrow Agent shall be communicated to the City and County within a reasonable time. Subject to the foregoing, all terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the Escrow Agent, its successors and assigns.

Section 17. Waiver. No waiver shall be deemed to be made by any party of any of its rights hereunder unless the same shall be in writing. The City and County's or the Escrow Agent's inaction, silence, or failure to demand strict performance shall not be deemed a waiver. Each waiver, if any, shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of the waiving party or the obligations of any other party in any other respect or at any other time.

Section 18. Notices. Notices shall be given by the Escrow Agent to Fitch Ratings and to Moody's Investors Service, of any amendment or supplement to this Agreement or of any substitution of Government Securities pursuant to Section 4 hereof or any withdrawal of moneys from the 2015 Trust Fund pursuant to Section 3(f) hereof. Such notices shall be sent to Fitch Ratings at One State Street Plaza, New York, New York, 10004, Attention: Surveillance and to Moody's Investors Service at 99 Church Street, New York, New York, 10007, Attention: Public Finance Rating Desk/Refunded Bonds. Drafts of any such amendment or supplement shall be given to such rating agencies prior to the execution of such amendment or supplement.

All notices and communications required to be given to the City and County or the Escrow Agent pursuant to this Agreement shall be delivered in writing, or by telegram, telex, cable or first class mail, postage prepaid, addressed to the following parties, at the following addresses:

The City and County:

Director of Budget and Fiscal Services  
City and County of Honolulu  
530 South King Street, Room 115  
Honolulu, Hawaii 96813  
Attn: Division of Treasury

The Escrow Agent:

U.S. Bank National Association  
1420 Fifth Avenue, 7<sup>th</sup> Floor  
Seattle, Washington 98101  
Attn: Corporate Trust

Section 19. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the City and County or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenant or covenants, or such agreement or agreements, or such portions thereof, shall be deemed severable from the remaining covenants and agreements or portions thereof provided in this Agreement and the invalidity thereof shall in no way affect the validity of other provisions of this Agreement or of the Refunded Bonds, and the holders of the Refunded Bonds shall retain all of the rights and benefits accorded them hereunder and under applicable provisions of law. Notice of such judicial determination shall be given, as soon as is reasonable practicable, to the rating agencies at the addresses set forth in Section 18.

If any provision of this Agreement shall be held or deemed to be or shall, in fact, be inoperative or unenforceable or invalid as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases because such provision conflicts with any constitution or statute or rule of public policy, or for any other reason, such circumstance shall not have the effect of rendering such provision in question inoperative or unenforceable or invalid in any other case or circumstance, or of rendering any other provision or provisions herein contained inoperative or unenforceable or invalid to any extent whatsoever.

Section 20. Law and Place of Enforcement of This Agreement. This Agreement shall be construed and interpreted in accordance with the laws of the State of Hawaii. Any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in said State.

Section 21. Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

Section 22. Effects of Table of Contents and Section Headings. The Table of Contents and headings of the several Sections hereof shall be solely for convenience of reference and shall not affect the meaning, construction, interpretation or effect of this Agreement or any provision hereof.

IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be executed by their duly authorized officers and the City and County has caused its seal to be hereunto affixed as of the date first above written.

CITY AND COUNTY OF HONOLULU

By: \_\_\_\_\_  
Nelson H. Koyanagi, Jr.  
Director of Budget and Fiscal Services

[SEAL]

APPROVED AS TO FORM AND LEGALITY:

\_\_\_\_\_  
Corporation Counsel  
City and County of Honolulu

U.S. BANK NATIONAL ASSOCIATION, as  
Escrow Agent

By: \_\_\_\_\_  
Authorized Officer

EXHIBIT A

PRIOR BONDS

City and County of Honolulu  
Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 20\_\_\_\_

<i>Dated Date</i>	<i>Maturity Date</i>	<i>Original Issue Amount</i>	<i>Principal Amount Outstanding</i>
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City and County of Honolulu  
Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 20\_\_\_\_

<i>Dated Date</i>	<i>Maturity Date</i>	<i>Original Issue Amount</i>	<i>Principal Amount Outstanding</i>
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**City and County of Honolulu**  
**Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 20\_\_**

<i>Dated Date</i>	<i>Maturity Date</i>	<i>Original Issue Amount</i>	<i>Principal Amount Outstanding</i>
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**City and County of Honolulu**  
**Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 20\_\_**

<i>Dated Date</i>	<i>Maturity Date</i>	<i>Original Issue Amount</i>	<i>Principal Amount Outstanding</i>
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EXHIBIT B

REFUNDED BONDS

**City and County of Honolulu**  
**Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 20\_\_**

<b>Maturity Date</b>	<b>Principal Amount Outstanding</b>	<b>Principal Amount Refunded</b>	<b>Coupon</b>	<b>Call Date</b>	<b>Redemption Price</b>	<b>CUSIP</b>
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**City and County of Honolulu**  
**Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 20\_\_**

<b>Maturity Date</b>	<b>Principal Amount Outstanding</b>	<b>Principal Amount Refunded</b>	<b>Coupon</b>	<b>Call Date</b>	<b>Redemption Price</b>	<b>CUSIP</b>
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**City and County of Honolulu**  
**Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 20\_\_**

<b>Maturity Date</b>	<b>Principal Amount Outstanding</b>	<b>Principal Amount Refunded</b>	<b>Coupon</b>	<b>Call Date</b>	<b>Redemption Price</b>	<b>CUSIP</b>
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**City and County of Honolulu**  
**Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 20\_\_**

<b>Maturity Date</b>	<b>Principal Amount Outstanding</b>	<b>Principal Amount Refunded</b>	<b>Coupon</b>	<b>Call Date</b>	<b>Redemption Price</b>	<b>CUSIP</b>
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EXHIBIT C

GOVERNMENT SECURITIES

EXHIBIT A-2

CITY AND COUNTY OF HONOLULU  
(FIRST BOND RESOLUTION)  
WASTEWATER SYSTEM REVENUE BONDS  
SENIOR SERIES 2015B AND SENIOR SERIES 2015C (TAXABLE)

DESCRIPTION OF THE ESCROWED SECURITIES  
AS OF [CLOSING DATE], 2015

EXHIBIT D

FORM OF NOTICE TO HOLDERS OF REFUNDED BONDS  
OF ISSUANCE OF REFUNDING BONDS

NOTICE to Holders of:

**City and County of Honolulu**

**Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2005A,  
Series 20\_\_\_\_, Series 20\_\_\_\_ and Series 20\_\_\_\_**

NOTICE IS HEREBY GIVEN that the City and County of Honolulu, on [Closing Date], 2015, issued its Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2015B and its Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2015C (Taxable) (together, the “Refunding Bonds”), for the purpose of paying at maturity or refunding in advance of maturity the following obligations of the City and County (collectively, the “Refunded Bonds”):

<u>Series</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>	<u>Amount to Be Refunded</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP</u>
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A portion of the proceeds of such Refunding Bonds has been irrevocably deposited with U.S. BANK NATIONAL ASSOCIATION, to be held in trust and has been invested in certain noncallable direct obligations of, or obligations unconditionally guaranteed by, the United States of America, as will ensure sufficient moneys for the payment when due of the principal or redemption price of and interest on the Refunded Bonds.

U.S. BANK NATIONAL ASSOCIATION, as Escrow Agent,  
on behalf of Director of Budget and Fiscal Services City and County of Honolulu

EXHIBIT E

FORM OF NOTICE OF REDEMPTION OF REFUNDED BONDS

**NOTICE OF REDEMPTION**

**to Holders of City and County of Honolulu  
Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 20\_\_\_\_,  
dated as of \_\_\_\_\_, 20\_\_\_\_, and maturing  
on July 1 in the years  
20\_\_\_\_ through 20\_\_\_\_ and 20\_\_\_\_**

NOTICE IS HEREBY GIVEN that the City and County of Honolulu (the "City and County") has duly called for redemption and on July 1, 20\_\_\_\_, prior to the stated maturity, will redeem \$\_\_\_\_\_ principal amount of Wastewater System Revenue Bonds (First Bond Resolution) Senior Series 20\_\_\_\_, dated as of \_\_\_\_\_, 20\_\_\_\_, and maturing on July 1 in each of the years 20\_\_\_\_ through 20\_\_\_\_ and 20\_\_\_\_ (the "Bonds"). The details of the Bonds to be redeemed are set forth below:

Maturity Called	Principal Amount	Interest Rate	CUSIP Number
--------------------	---------------------	------------------	-----------------

All of the above-designated Bonds are to be redeemed on July 1, 20\_\_\_\_, the date on which such Bonds shall become due and payable, at a redemption price equal to the principal amount redeemed, from moneys irrevocably deposited in trust with U.S. BANK NATIONAL ASSOCIATION, as Escrow Agent (the "Escrow Agent").

From and after July 1, 20\_\_\_\_, the date fixed for redemption, interest on such Bonds will cease to accrue and become payable. Upon presentation and surrender of such Bonds on and after the date fixed for redemption, payment of the aforesaid redemption price will be made, at the principal office of the Director of Budget and Fiscal Services of the City and County of Honolulu, paying agent for the Bonds, in Honolulu, Hawaii.

The above-referenced CUSIP numbers are furnished for convenience only. No representation is made by the City and County or the Escrow Agent or the undersigned as to the accuracy or completeness of such CUSIP numbers.

[W-9 AND INTEREST WITHHOLDING INFORMATION TO BE INSERTED]

This notice is given at the request of and on behalf of the City and County of Honolulu.

Dated: \_\_\_\_\_, 20\_\_.

U.S. BANK NATIONAL ASSOCIATION, as  
Escrow Agent, on behalf of

DIRECTOR OF BUDGET AND FISCAL  
SERVICES, CITY AND COUNTY OF  
HONOLULU, Paying Agent for the Bonds

**EXHIBIT D**

**FORM OF PRELIMINARY OFFICIAL STATEMENT**

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

## PRELIMINARY OFFICIAL STATEMENT DATED JULY 10, 2015

**NEW ISSUE  
BOOK-ENTRY ONLY**

**RATINGS: Senior Series 2015 Bonds: Moody's: Aa2/Fitch: AA  
Junior Series 2015 Bonds: Moody's: Aa3/Fitch: AA-  
(See "Ratings" herein)**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Senior Series 2015A Bonds, the Senior Series 2015B Bonds, and the Junior Series 2015A Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is of the opinion that the Series 2015 Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel further observes that interest on the Senior Series 2015C Bonds and the Junior Series 2015B Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2015 Bonds. See "TAX MATTERS" in this Official Statement.*

**\$606,625,000\***

**City and County of Honolulu  
Wastewater System Revenue Bonds**

**\$155,320,000\***

**Senior Series 2015A  
First Bond Resolution**

**\$251,100,000\***

**Senior Series 2015B (Refunding)  
First Bond Resolution**

**\$99,365,000\***

**Senior Series 2015C  
(Taxable Refunding)  
First Bond Resolution**

**\$76,290,000\***

**Junior Series 2015A (Refunding)  
Second Bond Resolution**

**\$24,550,000\***

**Junior Series 2015B (Taxable Refunding)  
Second Bond Resolution**

**Dated: Date of Delivery**

**Due: July 1, as shown on inside cover**

The City and County of Honolulu Wastewater System Revenue Bonds (First Bond Resolution), Senior Series 2015A Bonds, Senior Series 2015B Bonds (Refunding) and Senior Series 2015C Bonds (Taxable Refunding) (the "Senior Series 2015A Bonds," "Senior Series 2015B Bonds" and "Senior Series 2015C Bonds," respectively, and collectively, the "Senior Series 2015 Bonds") and the City and County of Honolulu Wastewater System Revenue Bonds (Second Bond Resolution) Junior Series 2015A Bonds (Refunding) and Junior Series 2015B Bonds (Taxable Refunding) (the "Junior Series 2015A Bonds" and "Junior Series 2015B Bonds," respectively, collectively the "Junior Series 2015 Bonds," and collectively with the Senior Series 2015 Bonds, the "Series 2015 Bonds") are issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Series 2015 Bonds, purchases of the Series 2015 Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Series 2015 Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the Series 2015 Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Series 2015 Bonds may be made in the denomination of \$5,000 or any integral multiple thereof.

The Series 2015 Bonds bear interest payable on January 1 and July 1 of each year, commencing January 1, 2016, except for the Senior Series 2015A Bonds, which will be payable commencing July 1, 2016. The Series 2015 Bonds are subject to redemption prior to the stated maturity thereof as described herein. Proceeds of the Series 2015 Bonds will be used to: (i) fund the cost of certain additions and improvements to the wastewater system owned by the City and County of Honolulu, Hawaii (the "City and County"), (ii) refund certain outstanding bonds previously issued by the City and County pursuant to the First Bond Resolution (as defined below) and the Second Bond Resolution (as defined below), and (iii) pay the costs of issuance of the Series 2015 Bonds.

The Senior Series 2015 Bonds will be issued by the City and County under a bond resolution, as supplemented (the "First Bond Resolution"), pursuant to which the City and County has previously issued bonds and may issue additional bonds on a parity with the Senior Series 2015 Bonds, as described herein. The Senior Series 2015 Bonds are limited special obligations of the City and County payable solely from, and secured solely by a pledge of, the Net Revenues, proceeds of Bonds held or set aside under the First Bond Resolution, and certain funds and accounts established by the First Bond Resolution, on a parity with all other Bonds issued under the First Bond Resolution. Such pledge of the Net Revenues is senior and superior to any pledge of Net Revenues to secure obligations issued under any other bond resolution, including the Second Bond Resolution.

The Junior Series 2015 Bonds will be issued by the City and County under a bond resolution, as supplemented (the "Second Bond Resolution"), pursuant to which the City and County has previously issued bonds and may issue additional bonds on a parity with the Junior Series 2015 Bonds, as described herein. By purchasing the Junior Series 2015 Bonds, the holders thereof shall be deemed to have consented to certain proposed amendments to the Second Bond Resolution. See "SECURITY FOR THE BONDS—Proposed Amendments to Bond Resolutions." The Junior Series 2015 Bonds are limited special obligations of the City and County payable solely from, and secured solely by a pledge of, the Net Revenues, proceeds of Bonds held or set aside under the Second Bond Resolution, and certain funds and accounts established by the Second Bond Resolution, on a parity with all other Bonds issued under the Second Bond



Resolution. Such pledge of the Net Revenues is junior in priority and subordinate to any pledge of Net Revenues to secure obligations issued under any other senior bond resolution, including the First Bond Resolution.

**The Series 2015 Bonds are not a general or moral obligation of the State of Hawaii or any political subdivision thereof, including the City and County, and the faith and credit of the State of Hawaii or any political subdivision thereof, including the City and County, are not pledged to the payment of the principal of, premium, if any, or interest on the Series 2015 Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power of the State of Hawaii or any political subdivision thereof, including the City and County, in connection with any default with respect to the Series 2015 Bonds.**

This cover page contains certain information for quick reference only. It is not a summary of the bond issue. Prospective investors must read the entire Official Statement (including the Appendices) to obtain information essential to the making of an informed investment decision.

*The Series 2015 Bonds are offered when, as and if issued and received by the Underwriters, and are subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Alston Hunt Floyd & Ing., Honolulu, Hawaii, and Katten Muchin Rosenman, New York, New York. It is expected that the Series 2015 Bonds in definitive form will be available for delivery to DTC, in New York, New York, on or about August \_\_, 2015.*

**BofA Merrill Lynch**

**Piper Jaffray & Co.**

Dated: July \_\_, 2015

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\* Preliminary, subject to change

# MATURITY SCHEDULE

## City and County of Honolulu Wastewater System Revenue Bonds (First Bond Resolution)

\$ \_\_\_\_\_ \* Senior Series 2015A

<u>Year</u> <u>(July 1*)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <sup>†</sup> <u>(438701)</u>
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				

\$ \_\_\_\_\_ Term Bond Due July 1, 20\_\_\_\_, Price \_\_\_\_\_, CUSIP 438701 \_\_\_\_\_

\$ \_\_\_\_\_ Term Bond Due July 1, 2045, Price \_\_\_\_\_, CUSIP 438701 \_\_\_\_\_

\$ \_\_\_\_\_ \* Senior Series 2015B (Refunding)

<u>Year</u> <u>(July 1*)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438701)</u>
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				

\$ \_\_\_\_\_ Term Bond Due July 1, 20\_\_\_\_, Price \_\_\_\_\_, CUSIP 438701 \_\_\_\_\_

\$ \_\_\_\_\_ Term Bond Due July 1, 2036, Price \_\_\_\_\_, CUSIP 438701 \_\_\_\_\_

\* Preliminary, subject to change

<sup>†</sup> Copyright, American Bankers Association. CUSIP data provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the City and County nor the Underwriters takes any responsibility for the accuracy of such numbers.

\$ \_\_\_\_\_ \* Senior Series 2015C (Taxable Refunding)

<u>Year</u> <u>(July 1*)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>(438701)</u>
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				

\$ \_\_\_\_\_ Term Bond Due July 1, 20\_\_\_\_, Price \_\_\_\_\_, CUSIP 438701 \_\_\_\_\_  
 \$ \_\_\_\_\_ Term Bond Due July 1, 2036, Price \_\_\_\_\_, CUSIP 438701 \_\_\_\_\_

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\* Preliminary, subject to change

**MATURITY SCHEDULE**  
**City and County of Honolulu**  
**Wastewater System Revenue Bonds**  
**(Second Bond Resolution)**

\$ \_\_\_\_\_ \* Junior Series 2015A (Refunding)

<u>Year (July 1*)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP (438701)</u>
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2023				
2024				
2025				
2026				
2027				
2028				
2029				

\$ \_\_\_\_\_ Term Bond Due July 1, 20\_\_, Price \_\_\_\_\_, CUSIP 438701TC8

\$ \_\_\_\_\_ Term Bond Due July 1, 2032, Price \_\_\_\_\_, CUSIP 438701TD6

\$ \_\_\_\_\_ Junior Series 2015B (Taxable Refunding)

<u>Year (July 1*)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP (438701)</u>
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				

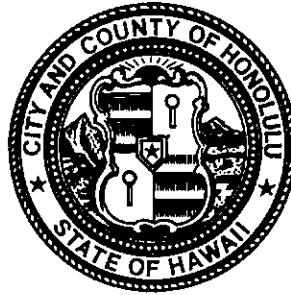
\$ \_\_\_\_\_ Term Bond Due July 1, 20\_\_, Price \_\_\_\_\_, CUSIP 438701TC8

\$ \_\_\_\_\_ Term Bond Due July 1, 2032, Price \_\_\_\_\_, CUSIP 438701TD6

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\*Preliminary, subject to change

**City and County of Honolulu**  
**State of Hawaii**  
(Incorporated 1907)



**MAYOR**

Kirk Caldwell

**CITY COUNCIL**

Ernest Y. Martin  
Chair and Presiding Officer

Ikaika Anderson  
Vice Chair

Ron Menor  
Floor Leader

Brandon J. Elefante

Carol Fukunaga

Ann H. Kobayashi

Joey Manahan

Trevor Ozawa

Kymberly Marcos Pine

**DIRECTOR OF BUDGET AND FISCAL SERVICES**

Nelson H. Koyanagi, Jr.

**DIRECTOR OF ENVIRONMENTAL SERVICES**

Lori M.K. Kahikina

**DEPUTY DIRECTORS OF ENVIRONMENTAL SERVICES**

Timothy A. Houghton  
Ross S. Tanimoto

**CORPORATION COUNSEL**

Donna Y.L. Leong

**BOND COUNSEL**

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the City and County in any way, regardless of the level of optimism communicated in the information. The City and County is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY AND COUNTY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

\* \* \* \* \*

The information contained in this Official Statement has been obtained from the City and County of Honolulu and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2015 Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2015 Bonds, and if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

**THE SERIES 2015 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2015 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## OFFICIAL STATEMENT

### City and County of Honolulu Wastewater System Revenue Bonds

**\$155,320,000\***  
**Senior Series 2015A**  
**First Bond Resolution**

**\$251,100,000\***  
**Senior Series 2015B (Refunding)**  
**First Bond Resolution**

**\$99,365,000\***  
**Senior Series 2015C**  
**(Taxable Refunding)**  
**First Bond Resolution**

**\$76,290,000\***  
**Junior Series 2015A (Refunding)**  
**Second Bond Resolution**

**\$24,550,000\***  
**Junior Series 2015B (Taxable Refunding)**  
**Second Bond Resolution**

## INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page and the appendices, provides certain information in connection with the issuance by the City and County of Honolulu (the "City and County") in the State of Hawaii of \$\_\_\_\_\_ aggregate principal amount of Wastewater System Revenue Bonds, Senior Series 2015A, Senior Series 2015B (Refunding) and Senior Series 2015C (Taxable Refunding) (First Bond Resolution) (the "Series 2015A Bonds," Senior Series 2015B Bonds and "Senior Series 2015C Bonds," respectively, and collectively, the "Senior Series 2015 Bonds") and Wastewater System Revenue Bonds Junior Series 2015A ("Refunding") and Junior Series 2015B (Taxable Refunding) (Second Bond Resolution) (the "Junior Series 2015A Bonds" and "Junior Series 2015B Bonds," respectively, collectively the "Junior Series 2015 Bonds," and collectively with the Senior Series 2015 Bonds, the "Series 2015 Bonds"). The Senior Series 2015 Bonds are to be issued under and secured by the First Wastewater Revenue Bond Resolution adopted by the City Council of the City and County on November 10, 1998 (as amended and supplemented from time to time, the "First Bond Resolution"), and the Senior Series 2015 Resolution adopted by the City Council of the City and County on July 8, 2015 (the "Senior Series 2015 Resolution"). The Senior Series 2015 Bonds are also to be issued under a certain Bond Series Certificate of the City and County dated the date of this Official Statement, relating to the Senior Series 2015 Bonds (the "Senior Series 2015 Certificate").

The Junior Series 2015 Bonds are to be issued under and secured by the Second Wastewater Revenue Bond Resolution adopted by the City Council of the City and County on November 10, 1998 (as amended and supplemented from time to time, the "Second Bond Resolution"), and the Junior Series 2015 Resolution adopted by the City Council of the City and County on July 8, 2015 (the "Junior Series 2015 Resolution," with the Senior Series 2015 Resolution, the "Series 2015 Resolutions"). The Junior Series 2015 Bonds are also to be issued under a certain Bond Series Certificate of the City and County dated the date of this Official Statement, relating to the Junior Series 2015 Bonds (the "Junior Series 2015 Certificate," with the Senior Series 2015 Certificates, the "Series 2015 Certificates"). The First Bond Resolution and the Second Bond Resolution are each individually referred to as a "Bond Resolution" and collectively referred to as the "Bond Resolutions."

The capitalization of any word below not conventionally capitalized indicates that such word is defined in the First Bond Resolution, the Second Bond Resolution, the Senior Series 2015 Certificate, the Junior Series 2015 Certificate or this Official Statement. A glossary of certain terms used in this Official Statement and the First Bond Resolution and the Second Bond Resolution is set forth in Appendix B under "Certain Definitions."

Proceeds of the Senior Series 2015A Bonds will be used to: (i) fund the cost of certain additions and improvements to the wastewater system owned by the City and County and (ii) pay the costs of issuance of the Senior Series 2015 Bonds. Proceeds of the Senior Series 2015B Bonds and the Senior Series 2015C Bonds will be used to: (i) refund certain outstanding bonds previously issued by the City and County pursuant to the First Bond Resolution and (ii) pay the costs of issuance of the Senior Series 2015 Bonds.

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<sup>3</sup>Preliminary, subject to change

Proceeds of the Junior Series 2015A Bonds and Junior Series 2015B Bonds will be used to: (i) refund certain outstanding bonds previously issued by the City and County pursuant to the Second Bond Resolution and (ii) pay the costs of issuance of the Junior Series 2015 Bonds. See "APPLICATION OF PROCEEDS" below.

The Senior Series 2015 Bonds are the 18<sup>th</sup>, 19<sup>th</sup> and 20<sup>th</sup> series of bonds (each a "Series" and collectively the "Senior Bonds") issued under and pursuant to the First Bond Resolution and will be secured by and entitled to the protection of the First Bond Resolution on a parity with all Senior Bonds heretofore issued and to be hereafter issued under and pursuant to the First Bond Resolution. The Senior Series 2015 Bonds are limited special obligations of the City and County payable solely from, and secured solely by a pledge of, the Net Revenues, proceeds of Senior Series 2015 Bonds held or set aside under the First Bond Resolution, and certain funds and accounts established by the First Bond Resolution. Such pledge of the Net Revenues is senior and superior to any pledge of the Net Revenues to secure obligations issued under any other bond resolution, including Second Bond Resolution.

The Junior Series 2015 Bonds are the 7<sup>th</sup> and 8<sup>th</sup> series of bonds (each a "Series" and collectively the "Junior Bonds") issued under and pursuant to the Second Bond Resolution and will be secured by and entitled to the protection of the Second Bond Resolution on a parity with all Junior Bonds heretofore issued and to be hereafter issued under and pursuant to the Second Bond Resolution. The Senior Bonds and the Junior Bonds are collectively referred to as the "Bonds." The Junior Series 2015 Bonds are limited special obligations of the City and County payable solely from, and secured solely by a pledge of, the Net Revenues, proceeds of Junior Series 2015 Bonds held or set aside under the Second Bond Resolution, and certain funds and accounts established by the Second Bond Resolution. Such pledge of the Net Revenues is junior in priority to the pledge of the Net Revenues to secure obligations issued under the First Bond Resolution, but senior in priority to the pledge of the Net Revenues to secure the Department's outstanding State Revolving Fund loans and any reimbursable general obligation bonds issued by the City and County for the benefit of the Department. See "SECURITY FOR THE BONDS."

As of April 2, 2015, the City and County had \$1,251,325,000 principal amount of Senior Bonds outstanding. As of such date, the City and County also had \$378,733,270 principal amount of Junior Bonds outstanding. The Junior Bonds, together with the Department's outstanding State Revolving Fund loans, are considered to be Subordinate Obligations for purposes of the Bond Resolution. All outstanding Senior Bonds and Subordinate Obligations are fixed rate obligations. See "DEBT AND FINANCIAL POLICIES AND INDEBTEDNESS – Indebtedness" herein.

The Department of Environmental Services (the "Department") was created July 1, 1998, as part of a city-wide reorganization. The Department has the full and complete authority to manage, control and operate the Wastewater System owned or managed and under the jurisdiction of the City and County, including all materials, supplies, equipment and properties used or useful in connection with the Wastewater System. Previously, the Department of Wastewater Management, created by a City Charter change effective July 1, 1993, provided operation, maintenance, planning, design and construction of wastewater facilities in the City and County. The City Charter and Chapter 49, Hawaii Revised Statutes (the "Act") empower the City and County to issue revenue bonds in its name for the purposes of the Wastewater System. See "THE CITY AND COUNTY AND THE DEPARTMENT."

As of June 30, 2014, the Wastewater System serviced approximately 145,700 separate accounts and a population of approximately 780,000, which is approximately 82% of the total population of the City and County based on the 2010 census. The service area covers nearly 600 square miles. The customer base includes the residential population, business and industrial users, and other users located in the service area. Of the approximately 145,700 accounts, approximately 137,200 are residential, which generate approximately 70.5% of the total revenue from sewer service charges, and the remaining approximately 8,500 accounts are non-residential, which generate approximately 29.5% of the total revenue from sewer service charges. In the Fiscal Year ended June 30, 2014, the average total volume of wastewater processed by the Wastewater System was approximately 106 million gallons per day ("MGD"). See "THE WASTEWATER SYSTEM."

In June 2011, the City and County adopted a rate ordinance providing for increases in wastewater rates and future rate adjustments over the six-year period from July 1, 2011, through June 30, 2017. In May 2012, the City and County adopted Ordinance No. 12-7 providing for structural, but revenue neutral, changes to

wastewater rates effective from July 1, 2015 through June 30, 2017. Billing for non-residential customers using the new rate structure has been temporarily deferred. The approved rate changes for these customers have been implemented during the deferral period using the previous structure. See "CERTAIN FINANCIAL OPERATIONS AND OTHER INFORMATION AND STATISTICS—Rates and Charges."

The Department is currently undertaking a twenty-year capital improvement program adopted by the Department and approved by the City Council (the "2016-2020 Capital Improvement Program"). The 2016-2020 Capital Improvement Program is projected to cost approximately \$2.3 billion (in inflated dollars, *i.e.*, adjusted from 2015 dollars) and is being undertaken for the purposes, among others, of meeting the requirements of certain consent decrees, permits, or administrative orders entered into by the Department with Federal and State regulatory bodies and reliably serving projected growth in the number of customers served by the Wastewater System. The 2016-2020 Capital Improvement Program is part of the Department's 2011-2030 twenty-year capital improvement program (the "2011-2030 Capital Improvement Program"). The 2011-2030 Capital Improvement Program is projected to cost approximately \$7.8 billion (in inflated dollars) and has been undertaken for the same basic purposes as the 2016-2020 Capital Improvement Program. The cost of the 2011-2030 Capital Improvement Program, including the 2016-2020 Capital Improvement Program, is expected to be financed primarily from: (i) proceeds of Senior Bonds and Subordinate Obligations (including Clean Water State Revolving Fund loans) previously issued and currently available, (ii) proceeds of additional Senior Bonds (including the Series 2015A Bonds) and Subordinate Obligations (currently expected to consist primarily of Clean Water State Revolving Fund loans) to be issued in the future, (iii) Net Revenues of the Wastewater System, and (iv) Wastewater System Facilities Charges. See "CAPITAL IMPROVEMENT PROGRAM."

Pursuant to the Act and the City Charter, the City Council has the power to impose, prescribe and collect rates, rentals, fees or charges for the use and services of, and the facilities furnished by, the Wastewater System so that the Wastewater System will be and remain self-sustaining. The rates, rentals, fees or charges imposed and prescribed are required to produce revenues which will be at least sufficient to pay debt service on all revenue bonds issued for the purposes of the Wastewater System, including the Senior Bonds and the Subordinate Obligations, including Junior Bonds, to provide reserves therefor, to pay the costs of operation, maintenance and repair of the Wastewater System, and to carry out the covenants of all resolutions authorizing the issuance of revenue bonds for the purposes of the Wastewater System, including the First Bond Resolution and the Second Bond Resolution. The rates and charges fixed and imposed by the City Council are not subject to approval by any federal or state regulatory bodies. See discussion under "HISTORICAL AND PROJECTED REVENUES, EXPENSES AND COVERAGES."

## SOURCES AND USES OF PROCEEDS

The estimated sources and uses of the proceeds of the Series 2015 Bonds are set forth below:

Sources of Funds:	Senior Series 2015A	Senior Series 2015B	Senior Series 2015C	Junior Series 2015A	Junior Series 2015B	Total
Par Amount of Bonds .....	\$	\$	\$	\$	\$	\$
Plus Net Original Issue Premium .....						
Total Sources of Funds						
.....	\$	\$	\$	\$	\$	\$
Uses of Funds:						
Improvement Account .....	\$				\$	\$
Deposit to Escrow Fund ...						
Costs of Issuance <sup>2</sup> .....						
Total Uses of Funds.....	\$	\$	\$	\$	\$	\$

<sup>1</sup>Proceeds of Senior Series 2015B Bonds, Senior Series 2015C Bonds, Junior Series 2015A Bonds and Junior Series 2015B Bonds to be deposited into the Escrow Fund for application as described under "Panel Refunding" below.

<sup>2</sup>Includes Underwriter's discount and other legal and financial costs incurred in connection with the issuance and delivery of the Bonds.

## Plan of Refunding

In connection with the issuance of the Senior Series 2015B Bonds and the Senior Series 2015C Bonds, the City and County will enter into an escrow agreement (the "Senior Escrow Agreement") with U.S. Bank National Association, as escrow agent (the "Escrow Agent") for the purpose of refunding certain outstanding Senior Bonds previously issued by the City and County under the First Bond Resolution, as identified in the table below (the "Senior Refunded Bonds"). Subject to final determination in connection with the pricing of the Senior Series 2015 Bonds, the City and County has identified the bonds set forth below as potential refunding candidates under the First Bond Resolution (collectively, the "Senior Refunded Bonds"). The Senior Refunded Bonds will be selected based upon market conditions, bond structure or other factors at the time of pricing and the City and County's internal policies for issuing refunding bonds. These policies generally require, among other things, that the refunding generate sufficient present value savings, net of costs of issuance, as a percentage of the principal amount of bonds refunded and that the debt service savings from each maturity to be refunded be analyzed on an individual basis. Selection of the Senior Refunded Bonds is at the sole and absolute discretion of the City and County.

### Senior Refunded Bonds

<u>Series</u>	<u>Maturity (July 1)</u>	<u>Principal Amount Refunded</u>	<u>Interest Rate</u>	<u>CUSIP<sup>†</sup></u>
2005A	2016	\$ 0,000,000	5.000%	438701__

In connection with the issuance of the Junior Series 2015A Bonds and the Junior Series 2015B Bonds, the City and County will enter into an escrow agreement (the "Junior Escrow Agreement") with U.S. Bank National Association, as escrow agent (the "Escrow Agent") for the purpose of refunding certain outstanding Junior Bonds previously issued by the City and County under the Second Bond Resolution, as identified in the table below (the "Junior Refunded Bonds"). Subject to final determination in connection with the pricing of the Junior Series 2015 Bonds, the City and County has identified the bonds set forth below as potential refunding candidates under the Second Bond Resolution (collectively, the "Junior Refunded Bonds"). The Junior Refunded Bonds will be selected based upon market conditions, bond structure or other factors at the time of pricing and the City and County's internal policies for issuing refunding bonds. These policies generally require, among other things, that the refunding generate sufficient present value savings, net of costs of issuance, as a percentage of the principal amount of bonds refunded and that the debt service savings from each maturity to be refunded be analyzed on an individual basis. Selection of the Junior Refunded Bonds is at the sole and absolute discretion of the City and County.

**Junior Refunded Bonds**

<u>Series</u>	<u>Maturity (July 1)</u>	<u>Principal Amount Refunded</u>	<u>Interest Rate</u>	<u>CUSIP<sup>†</sup></u>
2003A-1	2016	\$ 0,000,000	5.000%	438701__

Upon the issuance of the Series 2015 Bonds, a portion of the proceeds thereof will be deposited into the respective escrow funds (the "Escrow Funds") held by the Escrow Agent under the Senior Escrow Agreement and the Junior Escrow Agreement. The moneys and securities held in the Escrow Funds are to be applied to the payment of principal of, premium, if any, and interest on the Senior Refunded Bonds and the Junior Refunded Bonds. Pending application, moneys deposited in the Escrow Funds will be invested in noncallable direct obligations of the United States (the "Escrow Securities") which, together with cash held uninvested in the Escrow Funds, will be sufficient, without reinvestment, and will be applied to pay the principal or redemption price of and

interest on the Refunded Bonds to and including their respective maturity dates or redemption dates. The maturing principal of and interest on the Escrow Securities and cash held in the Escrow Funds, in the amounts needed to pay the principal or redemption price of and interest on the Senior Refunded Bonds and the Junior Refunded Bonds, are pledged solely for the benefit of the holders of the Senior Refunded Bonds and the Junior Refunded Bonds. The Escrow Securities will be purchased from the Treasury Department of the United States of America or in the open market, in either case at interest rates and prices which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), not to exceed the applicable yield permitted by such provisions. See "VERIFICATION."

## THE SERIES 2015 BONDS

### General

*The Senior Series 2015 Bonds and the Junior Series 2015 Bonds are secured by and issued pursuant to separate resolutions, issuance certificates and other proceedings. The summary set forth below is presented in a consolidated manner for convenience.*

The Series 2015 Bonds will be dated as of the date of their issuance and will bear interest at the rates and mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The Series 2015 Bonds will be issued in minimum denominations of \$5,000 principal amount. Interest will accrue on the Series 2015 Bonds from the date of their issuance and will be due and payable semiannually on January 1 and July 1 of each year, commencing January 1, 2016, except for the Senior Series 2015A Bonds, which will be due and payable commencing July 1, 2016. The Director of Budget and Fiscal Services of the City and County will serve as the initial Paying Agent for the Series 2015 Bonds.

The Series 2015 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Series 2015 Bonds (together with its successors, if any, in such capacity, the "Securities Depository"). So long as the Securities Depository or its nominee is the registered owner of the Series 2015 Bonds, individual purchases of the Series 2015 Bonds will be made in book-entry form only (the "Book-Entry System"), in authorized denominations of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2015 Bonds. Principal of and interest on the Series 2015 Bonds will be paid to the Securities Depository, which will in turn remit such principal and interest to its Direct Participants (as defined in Appendix C), for subsequent distribution to Indirect Participants (as defined in Appendix C) and Beneficial Owners (as defined in Appendix C) of the Series 2015 Bonds. The Series 2015 Bonds may be transferred or exchanged in the manner described in the Series 2015 Bonds and as referenced in accompanying proceedings of the City and County. See Appendix C, "Book-Entry System" for certain information regarding the Book-Entry System maintained by DTC, as Security Depository.

### Mandatory Redemption\*

The Series 2015 Bonds identified below are also subject to redemption prior to maturity, in part, on each of the dates and in the respective principal amounts set forth below, at a Redemption Price of 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem the principal amount of Series 2015 Bonds specified for July 1 of each of the years shown below:

#### Senior Series 2015A Bonds Maturing July 1, 2045

Year (July 1)	Principal Amount
2033	

2034  
2035  
2036  
2045\*

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\* *Final Maturity.*

\*Preliminary, subject to change

**Senior Series 2015B Bonds  
Maturing July 1, 2036**

Year (July 1)	Principal <u>Amount</u>
2033	
2034	
2035	
2036*	

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\* *Final Maturity.*

**Senior Series 2015C Bonds  
Maturing July 1, 2036**

Year (July 1)	Principal <u>Amount</u>
2033	
2034	
2035	
2036*	

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\* *Final Maturity.*

**Junior Series 2015A Bonds  
Maturing July 1, 2032**

Year (July 1)	Principal <u>Amount</u>
2028	
2029	
2030	
2031	
2032*	

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\* *Final Maturity.*

**Junior Series 2015B Bonds  
Maturing July 1, 2032**

Year (July 1)	Principal <u>Amount</u>
2028	

2029  
2030  
2031  
2032\*

\* *Final Maturity.*

### **Optional Redemption**

The Series 2015 Bonds, maturing on and after July 1, 20\_\_ are subject to redemption prior to the stated maturity thereof at the option of the City and County on or after July 1, 20\_\_, in whole or in part at any time, from any maturities selected by the City and County (in its sole discretion), at a redemption price equal to 100% of the principal amount of the Bonds or portions thereof to be redeemed plus accrued interest to the date of redemption.

The Senior Series 2015C Bonds and Junior Series 2015B Bonds maturing on or before July 1, 2025 are subject to redemption prior to their stated maturities at the option of the City and County, in whole or in part (and if in part on a pro rata basis), on any date, at a redemption price (the "Make-Whole Premium") equal to the greater of:

(1) 100% of the principal amount of the Senior Series 2015C Bonds or Junior Series 2015B Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Senior Series 2015C Bonds or Junior Series 2015B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Senior Series 2015C Bonds or Junior Series 2015B Bonds are to be redeemed, discounted to the date on which such Senior Series 2015C Bonds or Junior Series 2015B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Comparable Treasury Yield (defined below) plus \_\_ basis points;

plus, in each case, accrued interest on such Senior Series 2015C Bonds or Junior Series 2015B Bonds to be redeemed to the redemption date.

For purposes of calculating the Make-Whole Premium with respect to the optional make-whole redemption of the Senior Series 2015C Bonds and the Junior Series 2015B Bonds, the following terms shall have the following meanings:

"Calculation Agent" means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities in the United States and designated by the State (which may be one of the institutions that served as underwriters for the Senior Series 2015C Bonds and the Junior Series 2015B Bonds).

"Comparable Treasury Issue" means the United State Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Senior Series 2015C Bonds or Junior Series 2015B Bonds being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Senior Series 2015C Bonds and Junior Series 2015B Bonds being redeemed.

"Comparable Treasury Price" means, with respect to any date on which a Senior Series 2015C Bond or Junior Series 2015B Bond or portion thereof is being redeemed, either: (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations or (b) if the Calculation Agent is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time at least three business days but no more than 20 business days preceding the date fixed for redemption.



“Comparable Treasury Yield” means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Senior Series 2015C Bonds or Junior Series 2015B Bonds being redeemed. The Comparable Treasury Yield will be determined at least three business days but no more than 20 business days preceding the date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Senior Series 2015C Bonds or Junior Series 2015B Bonds being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity: (i) closest to and greater than the remaining term to maturity of the Senior Series 2015C Bonds or Junior Series 2015B Bonds being redeemed; and (ii) closest to and less than the remaining term to maturity of the Senior Series 2015C Bonds or Junior Series 2015B Bonds being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100<sup>th</sup> of 1%, with any figure of 1/200<sup>th</sup> of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

“Reference Treasury Dealer” means a primary dealer of United States Government securities in the United States (which may be one of the institutions that served as underwriters for the Taxable Bonds) appointed by the State and reasonably acceptable to the Calculation Agent.

### **Selection for Redemption**

If less than all of the Series 2015 Bonds of a series are called for redemption, the City and County will designate the maturities from which the Series 2015 Bonds of such series are to be redeemed. For so long as the Series 2015 Bonds are registered in book-entry form and DTC or a successor securities depository is the sole registered owner of such Series 2015 Bonds, if fewer than all of the Series 2015 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2015 Bonds to be redeemed shall be selected: (i) by lot, in the case of the Senior Series 2015A Bonds, Senior Series 2015B Bonds or Junior Series 2015A Bonds, and (ii) on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, in the case of the Senior Series 2015C Bonds or Junior Series 2015B Bonds; provided that, so long as the Series 2015 Bonds are held in book-entry form, the selection for redemption of the Senior Series 2015C Bonds or Junior Series 2015B Bonds will be made in accordance with the operational arrangements of DTC then in effect, and if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, all Senior Series 2015C Bonds and Junior Series 2015B Bonds will be selected for redemption in accordance with DTC procedures by lot; provided further that any such redemption must be performed such that all Bonds remaining outstanding will be in authorized denominations. See Appendix D, “Book-Entry System.”

In connection with any repayment of principal of the Senior Series 2015C Bonds or Junior Series 2015B Bonds, including payments of scheduled mandatory sinking fund payments, the Registrar will direct DTC to make a pass-through distribution of principal to the owners of the Senior Series 2015C Bonds or Junior Series 2015B Bonds. A form of Pro Rata Pass-Through Distribution of Principal Notice will be provided to the Registrar that includes a table of factors reflecting the relevant scheduled redemption payments, based on the current schedule of mandatory sinking fund payments, which is subject to change upon certain optional redemptions, and DTC's currently applicable procedures, which are subject to change.

For purposes of calculating pro rata pass-through distributions of principal, “pro rata” means, for any amount of principal or interest to be paid, the application of a fraction to such amounts where (a) the numerator is equal to the amount due to the owners of the Senior Series 2015C Bonds or Junior Series 2015B Bonds on a payment date and (b) the denominator is equal to the total original par amount of the Senior Series 2015C Bonds or Junior Series 2015B Bonds.

It is the City and County's intent that redemption allocations made by DTC with respect to the Senior Series 2015C Bonds and the Junior Series 2015B Bonds be made on a pro rata pass-through distribution of principal basis as described above. However, neither the City and County nor the Underwriters can provide any assurance that DTC, DTC's direct and indirect participants, or any other intermediary will allocate the redemption of these Bonds on such basis.

If the Series 2015 Bonds are not registered in book-entry form and if fewer than all of the Series 2015 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Senior Series 2015C Bonds or Junior Series 2015B Bonds of such maturity and bearing such interest rate to be redeemed will be selected on a pro rata basis, and the particular Senior Series 2015A Bonds, Senior Series 2015B Bonds or Junior Series 2015A Bonds of such maturity and bearing such interest rate to be redeemed will be selected by lot, provided that any such redemption must be performed such that all Series 2015 Bonds remaining outstanding will be in authorized denominations.

### **Notice of Redemption**

Notice of redemption of any Series 2015 Bond is required to be mailed not less than 30 days prior to the redemption date to the holder of such Series 2015 Bond at its address as it appears on the registry books kept pursuant to the provisions of the Bond Resolution. Notice of redemption of Series 2015 Bonds will be given by the Paying Agent.

Each notice of redemption is required to state: (i) the title of the Series 2015 Bonds to be redeemed, the subseries designation thereof (if any), the redemption date, the place or places of redemption and the redemption price payable upon such redemption; (ii) if less than all the Series 2015 Bonds are to be redeemed, the distinctive number of the Series 2015 Bonds to be redeemed, (iii) that the interest on the Series 2015 Bonds, or on the principal amount thereof to be redeemed, designated for redemption in such notice shall cease to accrue from and after such redemption date; and (iv) that on such date there will become due and payable on each such Series 2015 Bond the principal amount thereof to be redeemed at the then applicable redemption price and the interest accrued on such principal amount to the redemption date. Each notice of redemption mailed to the holder of a Series 2015 Bond to be redeemed must, if less than the entire principal sum thereof is to be redeemed, also state the principal amount thereof to be redeemed and, if less than the entire principal sum of a Series 2015 Bond all of the principal of which matures on the same day is called for redemption, that such Series 2015 Bond must be surrendered to the Paying Agent in exchange for the payment of the principal amount thereof to be redeemed and the issuance of a new Series 2015 Bond or Bonds equaling in principal amount that portion of the principal sum not to be redeemed of the Series 2015 Bond to be surrendered.

Any notice of optional redemption may state that such redemption may be conditional upon the receipt by the Paying Agent on the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Series 2015 Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Series 2015 Bonds proposed to be redeemed shall not be received on or prior to the date fixed for redemption, such notice of redemption shall be null and void and of no force and effect, the City and County shall not redeem or be obligated to redeem any Series 2015 Bonds, and the Paying Agent at the City and County's direction shall give notice, in the same manner as notice of redemption is given, that moneys sufficient to pay in full the redemption price of the Series 2015 Bonds proposed to be redeemed were not received on or prior to the date fixed for redemption and such redemption did not occur. In the event of the failure to redeem, all Series 2015 Bonds surrendered for redemption shall be promptly returned to the holder or holders by the Paying Agent.

For so long as a book-entry only system is in effect with respect to the Series 2015 Bonds, notice of redemption, or notice of rescission of any conditional notice of redemption, of Series 2015 Bonds to be redeemed is to be mailed by the Paying Agent to the Securities Depository or its nominee. Any failure of the Securities Depository or of its nominee, or of a direct or indirect participant, to notify a beneficial owner of Series 2015 Bonds of any redemption will not affect the sufficiency or validity of the redemption of the Series 2015 Bonds to be redeemed. See "— Book-Entry System" below for a description of the book-entry only system. Neither the City and County nor the Paying Agent can give any assurance that the Securities Depository, or direct or indirect participants,

will distribute such redemption notices to the beneficial owners of the Series 2015 Bonds, or that they will do so on a timely basis.

## SECURITY FOR THE BONDS

### General

The Bonds issued under and pursuant to the First Bond Resolution and the Second Bond Resolution, including the Senior Series 2015 Bonds and Junior Series 2015 Bonds, respectively, are limited special obligations of the City and County. Pursuant to the respective Bond Resolutions as further described below, the Senior Bonds are equally and ratably payable and secured under the First Bond Resolution, and the Junior Bonds are equally and ratably payable and secured under the Second Bond Resolution, except that the City and County has reserved the right under each Bond Resolution to afford a particular Series of Bonds additional or different security through a Support Facility, escrow funds, or the establishment of separate funds and accounts with respect to a particular Series of Bonds funded from sources other than the Net Revenues. As discussed further below, the Senior Series 2015 Bonds are limited special obligations of the City and County payable solely from, and secured solely by a pledge of, the Net Revenues, proceeds of Senior Series 2015 Bonds held or set aside under the First Bond Resolution, and certain funds and accounts established by the First Bond Resolution. Such pledge of the Net Revenues is senior and superior to any pledge of the Net Revenues to secure obligations issued under any other bond resolution, including the Second Bond Resolution.

The Junior Series 2015 Bonds are limited special obligations of the City and County payable solely from, and secured solely by a pledge of, the Net Revenues, proceeds of Junior Series 2015 Bonds held or set aside under the Second Bond Resolution, and certain funds and accounts established by the Second Bond Resolution. Such pledge of the Net Revenues is junior in priority to the pledge of the Net Revenues to secure obligations issued under the First Bond Resolution, but senior in priority to the pledge of the Net Revenues to secure the Department's outstanding State Revolving Fund loans and any reimbursable general obligation bonds issued by the City and County for the benefit of the Department.

Under the Bond Resolutions, Net Revenues means, with respect to any period, the Revenues during such period less amounts required to pay Operation and Maintenance Expenses. Revenues means the moneys, including any moneys collected from the City and County or any department thereof other than the Department, derived by the Department from the rates, rentals, fees and charges prescribed for the use and services of, and the facilities and commodities furnished by, the Wastewater System. Revenues include: (i) all income, receipts, profits, and other moneys derived from the furnishing or supplying of the services, facilities and commodities through the Wastewater System; (ii) all income from investments of moneys held under the Bond Resolutions except the Rebate Account, the Subordinate Obligation Account or the Reimbursable Obligation Account; (iii) all payments made by Counterparties pursuant to Interest Rate Exchange Agreements; and (iv) moneys and Investment Securities transferred from the Rate Stabilization Account to the Sewer Fund within ninety (90) days following the end of a Fiscal Year. Certain items do not constitute Revenues under the Bond Resolutions, including certain deposits subject to refund, certain contributions in-aid-of construction and assessment, impact and other similar fees imposed and collected by the City and County, income, fees, charges, receipts, profits or other moneys derived by the Department from the ownership or operation of any separate utility system, and certain gifts, grants and donations, moneys and Investment Securities transferred from the Sewer Fund to the Rate Stabilization Account within ninety (90) days following the end of a Fiscal Year, or Wastewater System Facility Charges.

The pledge of the Net Revenues for the security and payment of the Senior Bonds under the First Bond Resolution is superior to the pledge and security for Subordinate Obligations and Reimbursable Obligations authorized to be issued pursuant to the First Bond Resolution. Subordinate Obligations are obligations of the City and County that are payable from Net Revenues after payment of Senior Bonds, but before payment of Reimbursable Obligations. The City and County's outstanding Subordinate Obligations currently consist of the Junior Bonds, including the Junior Series 2015 Bonds, and State Revolving Fund loans, junior in priority to the Junior Bonds. Reimbursable Obligations are general obligation bonds that are payable from moneys in the City and County's general fund, subject to reimbursement from Net Revenues after payment of Senior Bonds and Subordinate Obligations. As of April 2, 2015, the City and County had \$631,451,669 principal amount of outstanding Subordinate Obligations (consisting of \$378,733,270 of Junior Bonds and \$252.7 million of State

Revolving Fund loans) and \$803,115 of outstanding Reimbursable Obligations. The City and County also had \$2,592,000 principal amount of USDA revenue bonds outstanding as of April 2, 2015, the repayment of which is secured by a pledge of Net Revenues subordinate to the Senior Bonds, the Subordinate Obligations and the Reimbursable Obligations. See "DEBT AND FINANCIAL POLICIES AND INDEBTEDNESS."

The Senior Series 2015 Bonds will constitute Senior Bonds under the First Bond Resolution. The Senior Series 2015 Bonds are the 18<sup>th</sup>, 19<sup>th</sup> and 20<sup>th</sup> Series of Bonds to be issued under the First Bond Resolution. The City and County expects to issue additional Bonds under the First Bond Resolution on a parity with the Senior Series 2015 Bonds.

The Junior Series 2015 Bonds will constitute Junior Bonds under the Second Bond Resolution. The Junior Series 2015 Bonds are the 7<sup>th</sup> and 8<sup>th</sup> Series of Bonds to be issued under the Second Bond Resolution. The City and County expects to issue additional Bonds under the Second Bond Resolution on a parity with the Junior Series 2015 Bonds.

**The Series 2015 Bonds are not a general or moral obligation of the State of Hawaii or any political subdivision thereof, including the City and County, and the faith and credit of the State of Hawaii or any political subdivision thereof, including the City and County, are not pledged to the payment of the principal or redemption price of or interest on the Series 2015 Bonds, and no holder of the Series 2015 Bonds shall have the right to compel the exercise of the taxing power of the State of Hawaii or any political subdivision thereof, including the City and County, in connection with any default with respect to the Series 2015 Bonds.**

#### **Funds and Accounts**

The various funds and accounts established under or pledged by the Bond Resolutions, the flow of Revenues through such funds and accounts, the rights and remedies of Bondholders under the Bond Resolutions and other related matters are summarized in Appendix B, "Summary of Certain Provisions of the Bond Resolutions."

*First Bond Resolution and Senior Bonds.* The City and County has established the Sewer Fund by ordinance. Revenues are deposited in the Sewer Fund. The First Bond Resolution establishes in the Sewer Fund a Debt Service Account, a Rate Stabilization Account, a Renewal and Replacement Account and a Wastewater General Account, all of which are pledged as security for the payment of debt service on all Senior Bonds subject to the terms and provisions of and the exceptions provided in the First Bond Resolution. The First Bond Resolution also establishes a Common Reserve Account in the Sewer Fund and permits the establishment in the Sewer Fund of one or more Separate Series Reserve Accounts. The Common Reserve Account is pledged as additional security for the payment of debt service on the Senior Bonds of such Series designated by the City and County to be entitled to the benefit of the Common Reserve Account. Each Separate Series Reserve Account is pledged as additional security for the payment of debt service on the Senior Bonds of such individual Series designated by the City and County to be entitled to the benefit of such Separate Series Reserve Account.

The debt service on and redemption price of the Senior Bonds are payable from the Debt Service Account in the Sewer Fund. In the event of a deficiency in the Debt Service Account, debt service on and redemption price of particular Senior Bonds are payable from the Common Reserve Account or the Separate Series Reserve Accounts, as applicable, but only if such Senior Bonds are entitled to the benefit of such reserve accounts.

Moneys deposited and retained in the Sewer Fund may be maintained in an amount which is reasonable and necessary for working capital and reserves. The Rate Stabilization Account is to be used to stabilize the rates and charges of the Wastewater System. The Rate Stabilization Account is to be maintained in an amount as provided in the Annual Budget and is to be funded from: (i) Revenues but only after paying the Operation and Maintenance Expenses and after transferring required amounts to other funds and accounts as provided in the First Bond Resolution, and (ii) transfers from the Wastewater General Account. In addition, federal interest subsidies received with respect to the Senior Series 2009B, 2009C, and 2010B Bonds will be deposited in the Rate Stabilization Account and subsequently transferred to the Sewer Fund. The Renewal and Replacement Account is to be used to pay the costs of improvements to or reconstruction of the Wastewater System, repairs, major or extraordinary repairs and renewals or replacements of the Wastewater System and under certain conditions, as set

forth in the First Bond Resolution, to meet deficiencies in the Debt Service Account, the Common Reserve Account, Separate Series Reserve Accounts, if any, the Subordinate Obligation Account and the Reimbursable Obligation Account, and will be maintained in an amount provided for in the Annual Budget. The Wastewater General Account may be used for any lawful purpose of the City and County, including funding of the Rate Stabilization Account, and under certain conditions, may be used to meet deficiencies in the Sewer Fund, the Common Reserve Account, Separate Series Reserve Accounts, if any, the Renewal and Replacement Account, the Rebate Account, the Subordinate Obligation Account and the Reimbursable Obligation Account.

The First Bond Resolution also establishes in the Sewer Fund a Rebate Account, a Subordinate Obligation Account and a Reimbursable Obligation Account. Such accounts are not pledged as security for the Senior Series 2015 Bonds, or any other Senior Bonds. The funds in the Subordinate Obligation Account are to be used to pay debt service on and redemption price of Subordinate Obligations, including the Junior Bonds, provide necessary debt service reserves and other reserves and pay other costs related to Subordinate Obligations. The funds in the Reimbursable Obligation Account are to reimburse the General Fund for payments of debt service on and redemption price of Reimbursable Obligations. The funds in the Rebate Account are to be used to pay required rebates to the United States Treasury Department incurred in respect of the Bonds.

The First Bond Resolution also establishes in the Sewer Fund the Wastewater System Facility Charge Account. Wastewater System Facility Charges collected by the Department are deposited in the Wastewater System Facility Charge Account. The Wastewater System Facility Charge Account is pledged under the First Bond Resolution as security for the payment of debt service on and redemption price of the Senior Bonds. However, if any amounts are used to pay debt service on or redemption price of the Senior Bonds, the Wastewater System Facility Charge Account must be reimbursed from the Net Revenues with the priority set forth in the First Bond Resolution. The Wastewater System Facility Charges are not considered to be Revenues under the First Bond Resolution.

The City and County has also established by ordinance the Improvement Fund. The First Bond Resolution establishes in the Improvement Fund an Improvement Account and permits the establishment within the Improvement Account of one or more Series Improvements Subaccounts and one or more Series Improvement Interest Subaccounts. Proceeds of Senior Bonds issued under the First Bond Resolution are to be deposited in the Improvement Account or a Series Improvement Subaccount pending application to pay the Costs of Improvements. Proceeds of Senior Bonds issued under the First Bond Resolution which are to be used to pay capitalized interest on the Senior Bonds of a Series during the period of construction of an Improvement and for six months thereafter must be deposited in a Series Improvement Interest Subaccount. The Improvement Account, each Series Improvement Subaccount and each Series Improvement Interest Subaccount (but not the Improvement Fund) are pledged under the First Bond Resolution as security for the payment of debt service on and redemption price of the Senior Bonds.

***Second Bond Resolution and Junior Bonds.*** The City and County has established the Sewer Fund by ordinance. Revenues are deposited in the Sewer Fund. The First Bond Resolution establishes various accounts in the Sewer Fund, none of which except the Subordinate Obligation Account is pledged as security for the payment of debt service on the Junior Bonds. Such pledge of the Subordinate Obligation Account is subject to the terms and provisions of and the exceptions provided in the First Bond Resolution and the Second Bond Resolution. Under the First Bond Resolution, the Department will, in each month, transfer from the Sewer Fund to the Subordinate Obligation Account a sufficient amount required by the Bond Resolution to pay all accrued and unpaid amounts and amounts to accrue and become payable during the succeeding calendar month which are payable from the Subordinate Obligation Account, but only after: (i) making the transfer, if any, to the Wastewater System Facility Charge Account of all moneys received as Wastewater System Facility Charges, (ii) paying or setting aside a sufficient amount to pay the Operating and Maintenance Expenses, (iii) making the transfer to the Rebate Account under the First Bond Resolution, (iv) transferring a sufficient amount to the Debt Service Account under the First Bond Resolution to pay debt service on First Resolution Obligations, (v) transferring a sufficient amount to the Common Reserve Account and each Separate Series Reserve Account under the First Bond Resolution to eliminate any deficiency therein, and (vi) maintaining in the Sewer Fund a reasonable and necessary amount for working capital and operating reserves.

The Second Bond Resolution establishes in the Subordinate Obligation Account a Debt Service Subaccount. The Debt Service Subaccount is pledged as security for the payment of debt service on all Junior

Bonds subject to the terms and provisions of and the exceptions provided in the Second Bond Resolution. The Second Bond Resolution also establishes a Common Reserve Subaccount in the Subordinate Obligation Account and permits the establishment in the Subordinate Obligation Account of one or more Separate Series Reserve Subaccounts. The Common Reserve Subaccount is pledged as additional security for the payment of debt service on the Junior Bonds of such Series designated by the City and County to be entitled to the benefit of the Common Reserve Subaccount. Each Separate Series Reserve Subaccount is pledged as additional security for the payment of debt service on the Junior Bonds of such individual Series designated by the City and County to be entitled to the benefit of such Separate Series Reserve Subaccount.

The debt service on and redemption price of the Junior Bonds are payable from the Debt Service Subaccount in the Subordinate Obligation Account. In the event of a deficiency in the Debt Service Subaccount, the debt service on and redemption price of particular Junior Bonds are payable from the Common Reserve Subaccount or the Separate Series Reserve Subaccounts, as applicable, but only if such Junior Bonds are entitled to the benefit of such Reserve Subaccounts.

Under the First Bond Resolution, moneys deposited and retained in the Sewer Fund may be maintained in an amount which is reasonable and necessary for working capital and reserves. The First Bond Resolution establishes, among other accounts, the Rate Stabilization Account, the Renewal and Replacement Account and the Wastewater General Account. Such accounts are not pledged as security for the payment of debt service on and redemption price of the Junior Bonds. However, moneys in such accounts may be transferred to the Subordinate Obligation Account on the terms and conditions as provided in the First Bond Resolution. The Rate Stabilization Account is to be used to stabilize the rates and charges of the Wastewater System. The Rate Stabilization Account is to be maintained in an amount as provided in the Annual Budget and is to be funded as provided in the Annual Budget from (i) the Revenues but only after paying the Operation and Maintenance Expenses and after transferring required amounts to other funds and accounts as provided in the First Bond Resolution, and (ii) transfers from the Wastewater General Account. The Renewal and Replacement Account is to be used to pay the costs of improvements to or reconstruction of the Wastewater System, repairs, major or extraordinary repairs and renewals or replacements of the Wastewater System and under certain conditions, as set forth in the Second Bond Resolution, to meet deficiencies in the Debt Service Subaccount, the Common Reserve Account, Separate Series Reserve Accounts, if any, the Subordinate Obligation Account, including the Debt Service Subaccount, the Common Reserve Subaccount and all Separate Series Subaccounts, and the Reimbursable Obligation Account, and will be maintained in an amount provided for in the Annual Budget. The Wastewater General Account may be used for any lawful purpose of the City and County, including funding of the Rate Stabilization Account, and under certain conditions, may be used to meet deficiencies in the Sewer Fund, the Common Reserve Account, Separate Series Reserve Accounts, if any, the Renewal and Replacement Account, the Rebate Account, the Subordinate Obligation Account and the Reimbursable Obligation Account.

The Second Bond Resolution also establishes in the Subordinate Obligation Account a Rebate Subaccount and a Third Lien Obligation Subaccount. Such accounts are not pledged as security for the Junior Series 2015 Bonds, or any other Junior Bonds. The funds in the Third Lien Obligation Subaccount are to be used to pay debt service on and redemption price of Third Lien Obligations, provide necessary debt service reserves and other reserves and pay other costs related to Third Lien Obligations. The funds in the Rebate Subaccount are to be used to pay required rebates to the United States Treasury Department incurred in respect of the Junior Bonds.

The First Bond Resolution also establishes in the Sewer Fund, the Wastewater System Facility Charge Account. Wastewater System Facility Charges collected by the Department are deposited in the Wastewater System Facility Charge Account. The Wastewater System Facility Charge Account is pledged under the First Bond Resolution as security for the payment of debt service on and redemption price of the First Resolution Obligations but not for the Junior Bonds. If any amounts are used to pay the debt service on or redemption price of First Resolution Obligations, the Wastewater System Facility Charge Account must be reimbursed from the Net Revenues with the priority set forth in the First Bond Resolution. The Wastewater System Facility Charges are not considered to be Revenues under the First Bond Resolution.

The City and County has also established by ordinance the Improvement Fund. The Second Bond Resolution establishes in the Improvement Fund an Improvement Second Account and permits the establishment within the Improvement Second Account of one or more Series Improvement Second Subaccounts and one or more

Series Improvement Second Interest Subaccounts. Proceeds of Junior Bonds issued under the Second Bond Resolution are to be deposited in the Improvement Second Account or a Series Improvement Second Subaccount pending application to pay the Costs of Improvements. Proceeds of Junior Bonds issued under the Second Bond Resolution which are to be used to pay capitalized interest on the Junior Bonds of a Series during the period of construction of an Improvement and for six months thereafter must be deposited in a Series Improvement Second Interest Subaccount. The Improvement Second Account, each Series Improvement Second Subaccount and each Series Improvement Second Interest Subaccount (but not the Improvement Fund) are pledged under the Second Bond Resolution as security for the payment of debt service on and redemption price of the Junior Bonds.

#### **Reserve Accounts**

The First Bond Resolution and the Second Bond Resolution establish a Common Reserve Account and a Common Reserve Subaccount, respectively (and collectively, the "Common Reserves" or individually each a "Common Reserve") and authorize the establishment of Separate Series Reserve Accounts and Separate Series Reserve Subaccounts, respectively (and collectively, the "Separate Reserves") for Bonds that are not entitled to the benefit of the Common Reserves. The Common Reserve Account (for Senior Bonds) and the Common Reserve Subaccount (for Junior Bonds) secure all applicable outstanding Senior Bonds and Junior Bonds except for \$204,435,000 principal amount of Senior Bonds issued in 2010 (the "Senior Series 2010 Bonds"), \$169,190,000 principal amount of Senior Bonds issued in 2011 (the "Senior Series 2011 Bonds"), and \$134,175,000 principal amount of Senior Bonds issued in 2012 (the "Senior Series 2012 Bonds") each of which is secured by applicable Separate Series Reserves. As of July 1, 2015, the cash balances in the Common Reserves and Separate Series Reserves were as follows:

<u>Reserve Accounts</u>	<u>Cash Balance</u>
<i>Common Reserve Account:</i>	
Senior Bonds	\$ 55,235,979
<i>Common Reserve Subaccount:</i>	
Junior Bonds	\$ 36,367,925
<i>Separate Series Reserve Accounts:</i>	
Senior Series 2010 Bonds	\$ 6,257,036
Senior Series 2011 Bonds	5,739,850
Senior Series 2012 Bonds	4,569,938
<u>Total Reserve Funds</u>	<u>\$108,170,728</u>

No Series 2015 Bonds will be secured by either Common Reserve or any Separate Series Reserves.

#### **Common Reserve Account and Separate Series Reserve Accounts with Respect to the Senior Bonds**

***Common Reserve Account.*** Under the First Bond Resolution, the City and County may designate one or more Series of Bonds to be entitled to the benefit of the Common Reserve Account. No Senior Series 2015 Bonds will be entitled to the benefit of the Common Reserve Account.

The moneys held in the Common Reserve Account are to be used to pay debt service on the Senior Bonds entitled to the benefit of the Common Reserve Account in the event of a deficiency in the Debt Service Account to pay such debt service. The Common Reserve Account is to be maintained in an amount not less than the Common Reserve Account Requirement. The Common Reserve Account Requirement is an amount that is equal to the greatest amount of Aggregate Debt Service for the then current or any future Fiscal Year on all Outstanding Senior Bonds entitled to the benefit of the Common Reserve Account; provided, however, that if upon the issuance of a Series of Senior Bonds entitled to the benefit of the Common Reserve Account, such amount would require moneys credited to the Common Reserve Account from the proceeds of such Senior Bonds in an amount in excess of the maximum amount permitted under the Code, the Common Reserve Account Requirement will then be the Common Reserve Account Requirement immediately preceding the issuance of such Senior Bonds and the maximum amount permitted under the Code to be deposited from the proceeds of such Senior Bonds, as certified by an Authorized Officer. The First Bond Resolution provides that the Aggregate Debt Service is to be computed with respect to each Variable Rate Bond entitled to the benefit of the Common Reserve Account by using the Assumed Long-Term Fixed Rate.

*Separate Series Reserve Accounts.* The First Bond Resolution permits the establishment of a Separate Series Reserve Account to provide additional security for the Senior Bonds of a Series which is not entitled to the benefit of the Common Reserve Account. In the event of a deficiency in the Debt Service Account to pay debt service on the Senior Bonds of a Series entitled to the benefit of a Separate Series Reserve Account, the amounts held in such Separate Series Reserve Account are to be used exclusively to pay such debt service. The amount to be maintained in any such Separate Series Reserve Account for a Series of Senior Bonds is to be determined at the time such Senior Bonds are authorized or sold. The credit quality of a Support Facility to be deposited in any Separate Series Reserve Account for a Series of Senior Bonds is also to be determined at the time such Senior Bonds are authorized or sold.

The Senior Series 2010 Bonds, Senior Series 2011 Bonds, and the Senior Series 2012 Bonds are each secured by a Separate Series Reserve Account established for such Series of Senior Bonds. The amount required to be maintained in each of these accounts is equal to 50% of the greatest annual Debt Service payable during any Fiscal Year with respect to each such outstanding Series of Senior Bonds.

No Senior Series 2015 Bonds will be secured by a Separate Series Reserve Account.

*Transfers to Reserve Accounts.* The First Bond Resolution requires that in each month, after paying and setting aside an amount sufficient to pay the Operation and Maintenance Expenses for such month, and after transferring to the Debt Service Account an amount sufficient to pay debt service on the Senior Bonds to accrue in such month, moneys in the Sewer Fund are to be transferred pro rata to the Common Reserve Account and each Separate Series Reserve Account in such amounts as are required so that the balances in the Common Reserve Account and each Separate Series Reserve Account are equal to their respective requirements, or at the election of the Department, so that at least one-sixth of any deficiency in the Common Reserve Account or each Separate Series Reserve Account is eliminated.

#### **Common Reserve Subaccount with Respect to the Junior Bonds**

*Common Reserve Subaccount.* The Second Bond Resolution establishes a Common Reserve Subaccount and authorizes the establishment of a Separate Series Reserve Subaccount for Junior Bonds of any Series not entitled to the benefit of the Common Reserve Subaccount. The Common Reserve Subaccount secures all Junior Bonds previously issued and currently outstanding under the Second Bond Resolution. Under the Second Bond Resolution, the City and County may designate one or more Series of Junior Bonds to be entitled to the benefit of the Common Reserve Subaccount.

No Junior Series 2015 Bonds will be secured by the Common Reserve Subaccount or Separate Series Reserve Subaccounts. The moneys held in the Common Reserve Subaccount are to be used to pay debt service on the Junior Bonds entitled to the benefit of the Common Reserve Subaccount in the event of a deficiency in the Debt Service Subaccount to pay such debt service. The Common Reserve Subaccount is to be maintained in an amount not less than the Common Reserve Subaccount Requirement. The Common Reserve Subaccount Requirement is an amount that is equal to the greatest amount of Aggregate Debt Service for the then current or any future Fiscal Year on all Outstanding Junior Bonds entitled to the benefit of the Common Reserve Subaccount; provided, however, that if upon the issuance of a Series of Junior Bonds entitled to the benefit of the Common Reserve Subaccount, such amount would require moneys credited to the Common Reserve Subaccount from the proceeds of such Junior Bonds in an amount in excess of the maximum amount permitted under the Code, the Common Reserve Subaccount Requirement will then be the Common Reserve Subaccount Requirement immediately preceding the issuance of such Junior Bonds and the maximum amount permitted under the Code to be deposited from the proceeds of such Junior Bonds, as certified by an Authorized Officer. The Second Bond Resolution provides that the Aggregate Debt Service is to be computed with respect to each Variable Rate Bond entitled to the benefit of the Common Reserve Subaccount by using the Assumed Long-Term Fixed Rate.

*Separate Series Reserve Accounts.* The Second Bond Resolution permits the establishment of a Separate Series Reserve Account to provide additional security for the Junior Bonds of a Series which is not entitled to the benefit of the Common Reserve Account.

No Junior Series 2015 Bonds will be secured by a Separate Series Reserve Account.



*Transfers to Reserve Subaccounts.* The Second Bond Resolution requires that in each month, after transferring to the Debt Service Subaccount an amount sufficient to pay debt service on the Bonds to accrue in such month, moneys in the Subordinate Obligation Account are to be transferred pro rata to the Common Reserve Subaccount and each Separate Series Reserve Subaccount in such amounts as are required so that the balances in the Common Reserve Subaccount and each Separate Series Reserve Subaccount are equal to their respective requirements, or at the election of the Department, so that at least one-sixth of any deficiency in the Common Reserve Subaccount or each Separate Series Reserve Subaccount is eliminated.

#### **Reserve Account Replacement Securities**

In lieu of cash or securities, the First Bond Resolution and the Second Bond Resolution permit the Department to satisfy the Common Reserve Account Requirement and the Common Reserve Subaccount Requirement, respectively (in either case the "Applicable Common Reserve Requirement"), in part or in whole by causing to be deposited into the applicable Common Reserve a Support Facility (which may be an irrevocable letter of credit, surety bond, loan agreement, standby bond purchase agreement, or other agreement facility or insurance or guaranty agreement issued by a bank or banks, or other financial institution or institutions, or any combination of the foregoing) in an amount equal to the difference between the Applicable Common Reserve Requirement and the sums then on deposit in the applicable Common Reserve, if any. The Support Facility must be payable (upon the giving of notice as required thereunder) on or before any interest payment date on which moneys will be required to be withdrawn from the applicable Common Reserve and applied to the payment of principal or redemption price of or interest on any Senior Bonds or Junior Bonds, as applicable, and such withdrawal cannot be met by amounts on deposit in the applicable Common Reserve or provided from any other available Fund under the First Resolution or the Second Bond Resolution, as applicable. Any Support Facility deposited in a Common Reserve or the long-term debt of the issuer of any Support Facility deposited in a Common Reserve must, in each case, be rated in the highest rating category by each Rating Agency and, if rated by A.M. Best & Company, must also be rated in the highest rating category by A.M. Best & Company. In the event any Support Facility deposited in a Common Reserve or the long-term debt of the issuer of any Support Facility deposited in a Common Reserve falls below the second highest rating category of each Rating Agency, and A.M. Best & Company, if rated by A.M. Best & Company, the City and County must, within 120 days, obtain a new Support Facility which, or which the long-term debt of the issuer of such new Support Facility, is rated in the highest rating category of such rating agencies; provided, however, that if the new Support Facility is not obtained within 120 days, the City and County must deposit in the applicable Common Reserve Net Revenues in the amount provided in the First Bond Resolution or the Second Bond Resolution, as applicable. If a disbursement is made pursuant to a Support Facility deposited in a Common Reserve, the City and County must: first, reinstate the full amount of such Support Facility; and second, if necessary, deposit Net Revenues in such Common Reserve in the amount of the disbursement made under such Support Facility, in either case such that the amount in such Common Reserve Account will equal the Applicable Common Reserve Requirement within a period of time not longer than would be required to restore such Common Reserve by application of moneys in the Sewer Fund as required by the applicable Bond Resolution. The City and County may at any time deposit cash or Investment Securities as replacement for one or more Support Facilities.

#### **Rate Covenant With Respect to the Senior Bonds**

The City and County is required by the First Bond Resolution, among other things, to fix, charge and collect such rates and other charges as shall be required in order that in each Fiscal Year the Net Revenues shall not be less than the Net Revenue Requirement for such Fiscal Year. The Net Revenue Requirement means with respect to any Fiscal Year or any period, an amount equal to the greater of: (i) the sum of (a) the Aggregate Debt Service in such Fiscal Year or such period and (b) the Required Deposits for such Fiscal Year or such period; or (ii) 1.20 times the Aggregate Debt Service in such Fiscal Year plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the end of such Fiscal Year. Net Revenues means, with respect to any period, the Revenues during such period less amounts required to pay Operation and Maintenance Expenses. Aggregate Debt Service means, for any period and as of any date of computation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds. Support Facility Reimbursement Obligations are obligations of the City and County to directly reimburse the Support Facility Provider of a Support Facility for amounts paid thereunder or a Counterparty under an Interest Rate Exchange Agreement for amounts paid, whether or not such obligation to reimburse is evidenced by a promissory note or similar instrument.

Failure by the City and County to comply with the foregoing rate covenant in any Fiscal Year will not constitute an Event of Default under the First Bond Resolution so long as the City and County complies with the provisions of the First Bond Resolution described below. Prior to the end of each Fiscal Year the Director of Environmental Services or the Director of Budget and Fiscal Services if requested by the Director of Environmental Services is required by the First Bond Resolution to complete a review of the financial condition of the Department for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the foregoing rate covenant and to make a written certification with respect to compliance or noncompliance. Such review is to take into consideration the completion of any uncompleted Improvements and the issuance of future Series of Senior Bonds if necessary to finance the completion of such Improvements. Such written certification is to set forth a reasonably detailed statement of the actual and estimated Revenues, Operation and Maintenance Expenses, Aggregate Debt Service, and any other estimates or assumptions upon which such determination was based, shall be filed with the City Clerk on or before July 1 in each year. If it is determined in such written certification that the Revenues may not be so sufficient, the Director of Environmental Services or the Director of Budget and Fiscal Services if requested by the Director of Environmental Services must forthwith make a study for the purpose of determining a schedule of fees, rates and charges which, in the opinion of the Director of Environmental Services or the Director of Budget and Fiscal Services, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with such rate covenant, or the Director of Environmental Services or the Director of Budget and Fiscal Services may elect to cause the Consulting Engineer to make such a study and render such certification. The City Council, as promptly as practicable but no later than 120 days following such determination by the Director of Environmental Services or the Director of Budget and Fiscal Services, or receipt of the Consulting Engineer's recommendation, is required to adopt and place in effect a schedule of fees, rates and charges as so determined or recommended. See "CERTAIN FINANCIAL, OPERATING AND OTHER INFORMATION AND STATISTICS – Rates and Charges" for current sewer charges, "HISTORICAL AND PROJECTED REVENUES, EXPENSES AND COVERAGES" for a discussion of the Department's projected rates, revenues and expenses, and "THE CITY AND COUNTY AND THE DEPARTMENT – Purpose and Powers" for a discussion of the rate making powers of the City Council.

#### **Rate Covenant With Respect to the Junior Bonds**

The City and County is required by the Second Bond Resolution, among other things, to fix, charge and collect such rates and other charges as shall be required in order that in each Fiscal Year the Net Revenues shall not be less than the Net Revenue Requirement for such Fiscal Year. The Net Revenue Requirement means with respect to any Fiscal Year or any period, an amount equal to the greater of: (i) the sum of (a) the Aggregate Debt Service under the First Bond Resolution and the Aggregate Debt Service in such Fiscal Year or such period and (b) the Required Deposits for such Fiscal Year or such period; or (ii) 1.10 times the Aggregate Debt Service (as defined in the First Bond Resolution) under the First Bond Resolution and 1.10 times the Aggregate Debt Service in such Fiscal Year or such period plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the end of such Fiscal Year or such period. Net Revenues means, with respect to any period, the Revenues during such period less amounts required to pay Operation and Maintenance Expenses. Required Deposits means, for any period: (i) the Required Deposits under the First Bond Resolution exclusive of transfers from the Sewer Fund to the Subordinate Obligation Account; and (ii) the amounts, if any, required: (a) to be paid into the Rebate Subaccount, the Common Reserve Subaccount, each Separate Series Reserve Subaccount, and the Third Lien Obligation Subaccount, and (b) to pay Support Facility Reimbursement Obligations. Required Deposits under the First Bond Resolution means, for any period, the amounts, if any, required: (i) to be paid into the Common Reserve Account, each Separate Series Reserve Account, the Subordinate Obligation Account and the Reimbursable Obligation Account under the First Bond Resolution; and (ii) to pay Support Facility Reimbursement Obligations under the First Bond Resolution. Aggregate Debt Service means, for any period and as of any date of computation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds. Support Facility Reimbursement Obligations are obligations of the City and County to directly reimburse the Support Facility Provider of a Support Facility for amounts paid thereunder or a Counterparty under an Interest Rate Exchange Agreement for amounts paid, whether or not such obligation to reimburse is evidenced by a promissory note or similar instrument.

Failure by the City and County to comply with the foregoing rate covenant in any Fiscal Year will not constitute an Event of Default under the Second Bond Resolution so long as the provisions of the Second Bond Resolution described below are complied with. Prior to the end of each Fiscal Year the Director of Environmental

Services or the Director of Budget and Fiscal Services if requested by the Director of Environmental Services is required by the Second Bond Resolution to complete a review of the financial condition of the Department for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the foregoing rate covenant and to make a written certification with respect to compliance or noncompliance. Such review is to take into consideration the completion of any uncompleted Improvements and the issuance of future Series of Junior Bonds if necessary to finance the completion of such Improvements. Such written certification is to set forth a reasonably detailed statement of the actual and estimated Revenues, Operation and Maintenance Expenses, Aggregate Debt Service, and any other estimates or assumptions upon which such determination was based, shall be filed with the City Clerk on or before July 1 in each year. If it is determined in such written certification that the Revenues may not be so sufficient, the Director of Environmental Services or the Director of Budget and Fiscal Services if requested by the Director of Environmental Services must forthwith make a study for the purpose of determining a schedule of fees, rates and charges which, in the opinion of the Director of Environmental Services or the Director of Budget and Fiscal Services, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with such rate covenant, or the Director of Environmental Services or the Director of Budget and Fiscal Services may elect to cause the Consulting Engineer to make such a study and render such certification. The City Council, as promptly as practicable but no later than 120 days following such determination by the Director of Environmental Services or the Director of Budget and Fiscal Services, or receipt of the Consulting Engineer's recommendation, is required to adopt and place in effect a schedule of fees, rates and charges as so determined or recommended. See "CERTAIN FINANCIAL, OPERATING AND OTHER INFORMATION AND STATISTICS – Rates and Charges" for current sewer charges, "HISTORICAL AND PROJECTED REVENUES, EXPENSES AND COVERAGES" for a discussion of the Department's projected rates, revenues and expenses, and "THE CITY AND COUNTY AND THE DEPARTMENT – Purpose and Powers" for a discussion of the rate making powers of the City Council.

#### **Additional Bonds and Refunding Bonds Under the First Bond Resolution**

The First Bond Resolution permits the issuance of additional Series of Senior Bonds (exclusive of refunding Bonds) on a parity with the Senior Bonds then Outstanding ("Additional Senior Bonds") for any lawful use or purpose relating to the Wastewater System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the conditions set forth in the First Bond Resolution. The Senior Series 2015 Bonds are being issued as Additional Senior Bonds under the First Bond Resolution and their issuance is subject to compliance with such conditions, which include delivery to the Director of Budget and Fiscal Services of the following documents or moneys or securities:

1. A written certificate of the City and County stating the amount required to be in the Common Reserve Account after issuance of the Senior Bonds then to be issued and that the amounts deposited will not be less than the Common Reserve Account Requirement.

2. A written certificate of the City and County stating the amount required to be in the Separate Series Reserve Account established for the Senior Bonds of such Series after issuance of the Senior Bonds then to be issued and that the amounts deposited will not be less than the Separate Series Reserve Account Requirement for the Senior Bonds of such Series.

3. Either:

- (I) a written certificate of the City and County based: (i) on audited figures or (ii) to the extent audited figures are not available, on figures taken by an independent certified public accountant from the Department's books and records, showing that the Net Revenues for: (a) the most recent Fiscal Year, or (b) any consecutive 12-month period out of 24 months immediately preceding the month in which such Bonds are issued were not less than 1.20 times the maximum Aggregate Debt Service on all Senior Bonds then Outstanding and on the proposed Series of Senior Bonds in any Fiscal Year plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of the written certificate of the City and County; or

- (II) a written certificate of the City and County or Certificate of the Consulting Engineer that the Net Revenues to be derived in each of the five (5) Fiscal Years following the earlier of:

(i) the end of the period during which interest is capitalized or, if no interest is to be capitalized, the Fiscal Year in which the proposed Series of Senior Bonds are issued, and (ii) the date on which substantially all Improvements to be financed with the proceeds of the proposed Series of Senior Bonds are expected to commence operations, or, if the proceeds of such Series of Senior Bonds will not be used to fund the Costs of Improvements, the Fiscal Year in which the proposed Series of Senior Bonds are issued, are estimated to be not less than 1.20 times the maximum Aggregate Debt Service on all Senior Bonds then Outstanding and on the proposed Series of Senior Bonds in any such Fiscal Year, plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of such written certificate of the City and County or certificate of the Consulting Engineer.

In determining Net Revenues for purposes of the certificates described above, the City and County or the Consulting Engineer, as the case may be, is permitted, and in certain instances is required, to make certain adjustments as provided in the First Bond Resolution. In addition, the First Bond Resolution requires that certain other adjustments to Net Revenues derived from Debt Service on Variable Rate Bonds and debt service on Bond Anticipation Notes and short-term Subordinate Obligations and Reimbursable Obligations be made for purposes of the written certificates described above. See Appendix B, "Summary of Certain Provisions of the First Bond Resolution."

Senior Bonds may be issued as variable rate bonds, fixed rate bonds, bonds providing for the right of the owner thereof to present the Senior Bond for redemption or purchase prior to maturity, zero interest rate or deep discount bonds, bonds providing for the compounding of interest, or any combination thereof. Senior Bonds may be issued or outstanding from time to time with or without credit enhancement provisions. See Appendix B, "Summary of Certain Provisions of the First Bond Resolution."

The First Bond Resolution also permits the issuance of Senior Bonds ("Senior Refunding Bonds") on a parity with the Senior Bonds then Outstanding to refund all or any part of: (i) a Series of Outstanding Senior Bonds; (ii) Subordinate Obligations; or (iii) Reimbursable Obligations. Senior Refunding Bonds may only be issued by the City and County upon satisfaction of certain conditions set forth in the First Bond Resolution.

A more detailed description of the requirements relating to the issuance of Additional Senior Bonds or Senior Refunding Bonds is set forth in Appendix B under "Additional Bonds and Refunding Bonds."

The First Bond Resolution also permits the issuance of notes in anticipation of a Series of Senior Bonds if the City and County has theretofore authorized the issuance of such Senior Bonds. The interest on such notes (and any renewal thereof) shall be payable from the proceeds of such notes or other notes or from the proceeds of the sale of the Senior Bonds in anticipation of which such notes are issued. A more detailed description of the provisions for security for payment of such notes and other requirements relating to the issuance of notes is set forth in Appendix B under "Bond Anticipation Notes."

#### **Additional Bonds and Refunding Bonds Under the Second Bond Resolution**

The Second Bond Resolution permits the issuance of additional Series of Junior Bonds (exclusive of refunding Bonds) on a parity with the Junior Bonds then Outstanding ("Additional Junior Bonds") for any lawful use or purpose relating to the Wastewater System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the conditions set forth in the Second Bond Resolution. The Junior Series 2015 Bonds are being issued as Additional Junior Bonds under the Second Bond Resolution and their issuance is subject to compliance with such conditions, which include delivery to the Director of Budget and Fiscal Services of the following documents or moneys or securities:

1. A written certificate of the City and County stating the amount required to be in the Common Reserve Subaccount after issuance of the Junior Bonds then to be issued and that the amounts deposited will not be less than the Common Reserve Subaccount Requirement.

2. A written certificate of the City and County stating the amount required to be in the Separate Series Reserve Subaccount established for the Junior Bonds of such Series after issuance of the

Junior Bonds then to be issued and that the amounts deposited will not be less than the Separate Series Reserve Subaccount Requirement for the Junior Bonds of such Series.

3. Either: (I) a Written Certificate of the City and County based: (i) on audited figures or (ii) to the extent audited figures are not available, on figures taken by an independent certified public accountant from the Department's books and records, showing that the Net Revenues for: (a) the most recent Fiscal Year, or (b) any consecutive twelve (12) months' period out of twenty four (24) months immediately preceding the month in which such Junior Bonds are issued were not less than the sum of: (1) 1.10 times the maximum Aggregate Debt Service (as defined in the First Bond Resolution) on all First Resolution Obligations issued and outstanding under and pursuant to the terms of the First Bond Resolution and the Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Junior Bonds in any Fiscal Year and (2) 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding under the First Bond Resolution and the Second Bond Resolution as of the date of the Written Certificate of the City and County; or (II) a Written Certificate of the City and County or Certificate of the Consulting Engineer that the Net Revenues to be derived in each of the five (5) Fiscal Years following the earlier of: (i) the end of the period during which interest is capitalized or, if no interest is to be capitalized, the Fiscal Year in which the proposed Series of Junior Bonds are issued, and (ii) the date on which substantially all Improvements to be financed with the proceeds of the proposed Series of Junior Bonds are expected to commence operations, or, if the proceeds of such Series of Junior Bonds will not be used to fund the Costs of Improvements, the Fiscal Year in which the proposed Series of Junior Bonds are issued, are estimated to be not less than the sum of: (1) 1.10 times the maximum of the sum of the Aggregate Debt Service (as defined in the First Bond Resolution) on all First Resolution Obligations issued and outstanding under and pursuant to the First Bond Resolution and the Aggregate Debt Service on all Junior Bonds then Outstanding and on the proposed Series of Junior Bonds in any such Fiscal Year, and (2) 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding under the First Bond Resolution and this Resolution as of the date of such Written Certificate of the City and County or certificate of the Consulting Engineer, as the case may be.

In determining Net Revenues for purposes of the certificates described above, the City and County or the Consulting Engineer, as the case may be, is permitted, and in certain instances is required, to make certain adjustments as provided in the Second Bond Resolution. In addition, the Bond Resolution requires that certain other adjustments to Net Revenues derived from Debt Service on Variable Rate Bonds and debt service on Bond Anticipation Notes and short-term Subordinate Obligations and Reimbursable Obligations be made for purposes of the written certificates described above. See Appendix C, "Summary of Certain Provisions of the Bond Resolution."

Junior Bonds may be issued as variable rate bonds, fixed rate bonds, bonds providing for the right of the owner thereof to present the Junior Bond for redemption or purchase prior to maturity, zero interest rate or deep discount bonds, bonds providing for the compounding of interest, or any combination thereof. Junior Bonds may be issued or outstanding from time to time with or without credit enhancement provisions. See Appendix C, "Summary of Certain Provisions of the Bond Resolution."

The Second Bond Resolution also permits the issuance of Junior Bonds ("Refunding Junior Bonds") on a parity with the Junior Bonds then Outstanding to refund all or any part of: (i) a Series of Outstanding Bonds; (ii) Subordinate Obligations; or (iii) Reimbursable Obligations. Junior Refunding Bonds may only be issued by the City and County upon satisfaction of certain conditions set forth in the Second Bond Resolution.

A more detailed description of the requirements relating to the issuance of Additional Bonds or Junior Refunding Bonds is set forth in Appendix C under "Additional Bonds and Refunding Bonds."

The Second Bond Resolution also permits the issuance of notes in anticipation of a Series of Junior Bonds if the City and County has theretofore authorized the issuance of such Junior Bonds. The interest on such notes (and any renewal thereof) shall be payable from the proceeds of such notes or other notes or from the proceeds of the sale of the Junior Bonds in anticipation of which such notes are issued. A more detailed description of the provisions for security for payment of such notes and other requirements relating to the issuance of notes is set forth in Appendix C under "Bond Anticipation Notes."

## Proposed Amendments to the Second Bond Resolution

Under the current provisions of the Second Bond Resolution, Refundable Credits or other moneys initially deposited in the Rate Stabilization Fund and subsequently transferred to the Sewer Fund within 90 days following the end of a Fiscal Year are treated as Revenues for purposes of the rate covenant, additional bonds test and other calculations of the ratio between Net Revenues and Debt Service. By resolution of the City Council adopted on October 13, 2010, the City and County proposes to amend the Second Bond Resolution to provide for Refundable Credits to be applied as an offset to Debt Service instead of being treated as Revenues. The proposed amendments are summarized as follows:

*Definition of Debt Service.* The City and County proposes to amend the definition of “Debt Service” to provide that: “in determining the amount of interest coming due during any applicable period on any Series of Bonds that are issued as Interest Subsidy Bonds, amounts equal to Refundable Credits the City and County is scheduled to receive during such period shall be deducted from such interest.”

*Deposit and Application of Refundable Credits.* The City and County further proposes to amend the provisions of the Second Bond Resolution regarding the Debt Service Subaccount by adding a new subsection (7) which reads as follows:

(7) All of the Refundable Credits received by the City and County shall be deposited immediately upon receipt in the Debt Service Subaccount, and such Refundable Credits are hereby irrevocably pledged to the punctual payment of the interest on the respective Series of Interest Subsidy Bonds to which such Refundable Credits relate, and the Refundable Credits shall not be used for any other purpose while any of the Interest Subsidy Bonds remain Outstanding. All the Refundable Credits as received by the City and County shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of the pledge shall be valid as against, and prior to the lien of, all parties having claims of any kind in tort, contract or otherwise against the City and County irrespective of whether such parties have notice thereof. Notwithstanding the foregoing deposit and pledge, the Refundable Credits are not considered Revenues or included in the calculation of Revenues under this Resolution. Additionally, in calculating the amount that the City and County pays out of the Debt Service Subaccount to the applicable Paying Agents as provided in (A)(1) above, the City and County or the Paying Agent, as applicable, shall take into account Refundable Credits only if they have been deposited in the Debt Service Subaccount on or prior to the Business Days preceding the applicable interest payment date and have not previously been expended to pay Debt Service on the Bonds issued as Interest Subsidy Bonds or otherwise transferred out of the Debt Service Subaccount.

Under the Second Bond Resolution, the terms “Interest Subsidy Bonds” and “Refundable Credits” (as used in the proposed amendments) are defined as follows:

“Interest Subsidy Bonds” means (a) any bonds or other obligations issued as Build America Bonds under Section 54AA of the Code, or under any other provision of the Code that creates a substantially similar direct-pay subsidy program, (b) any bonds or other obligations issued as Recovery Zone Economic Development Bonds under Section 1400U-2 of the Code, or under any other provision of the Code that creates a substantially similar direct-pay subsidy program, or (c) any other any bonds or other obligations issued under any provision or provisions of the Code that create substantially similar direct-pay subsidy programs to such programs with respect to Build America Bonds and Recovery Zone Economic Development Bonds.

“Refundable Credits” means (a) with respect to a Series of Bonds issued as Build America Bonds under Section 54AA of the Code, the amounts which are payable by the Federal government under Section 6431 of the Code, which the City and County has elected to receive under Section 54AA(g)(1) of the Code, (b) with respect to a Series of Bonds issued as Recovery Zone Economic Development Bonds under Section 1400U-2 of the Code, the amounts which are payable by the Federal government under Section 6431 of the Code, which the City and County has elected to receive under Section 1400U-2 of the Code, and (c) with respect to a Series of Bonds issued as any other type of Interest Subsidy Bonds, the amounts which are payable by the Federal government under provisions of the Code

governing a direct-pay subsidy program or programs substantially similar to such programs with respect to Build America Bonds and Recovery Zone Economic Development Bonds.

Under the terms of the Second Bond Resolution, the proposed amendments will not go into effect until such time as the City and County has obtained the consents of the Holders of not less than a majority of the Outstanding Junior Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION-Amending and Supplementing of Resolution-Amendment of Resolution with Consent of Holders of the Bonds" in Appendix C hereto. BY PURCHASING JUNIOR SERIES 2015 BONDS, THE HOLDERS THEREOF SHALL BE DEEMED TO HAVE CONSENTED TO THE PROPOSED AMENDMENTS, AND SUCH CONSENT WILL BE BINDING ON ALL SUCCESSIVE HOLDERS OF THE JUNIOR SERIES 2015 BONDS. Upon the issuance of the Junior Series 2015 Bonds, there will be \$\_\_\_\_\_ of Junior Bonds Outstanding, of which \$\_\_\_\_\_ will be deemed to have consented to the proposed amendments. Thus, the proposed amendments will be in effect after the issuance of the Junior Series 2015 Bonds.

## THE CITY AND COUNTY AND THE DEPARTMENT

### Purpose and Powers

*The City and County.* The City and County of Honolulu includes the entire island of Oahu and a number of small outlying islands. Of the eight major islands that constitute the State of Hawaii, Oahu, with an area of 597 square miles, is smaller than the Islands of Hawaii and Maui but larger than the Islands of Kauai, Molokai, Lanai, Niihau and Kahoolawe. With slightly less than one-tenth of the land area in the entire State, Oahu contains more than two-thirds of the State's resident population. According to the 2013 State of Hawaii Data Book, as of July 1, 2011 the resident population of the State was 1,404,054, and that of Oahu was 983,429, approximately 70% of the total State population. Honolulu is the seat of the State Government and is the State's trade, finance, communication, and transportation center. Most Federal establishments and personnel (both civilian and military), as well as major manufacturing, educational, scientific and visitor industry activities are located on Oahu.

*City Council and Mayor.* The City Council is the governing body of the City and County and consists of nine members, each of whom represents a separate council district. Councilmembers are elected for a four-year term and are limited to two consecutive terms. The terms of the councilmembers for council districts I, III, V, VII and IX expire on January 2, 2017, while the terms of the councilmembers for council districts II, IV, VI and VIII expire on January 2, 2019. Pursuant to the City Charter, the City Council has the power, among other things: (i) to exercise the legislative power of the City and County, (ii) to enact operating and capital budget ordinances, (iii) with certain exceptions, to fix fees and charges for services rendered by the City and County, and (iv) to authorize the issuance of revenue bonds for the purpose of initiating, constructing, acquiring, extending, replacing or otherwise improving any revenue-producing facility. The Mayor is the Chief Executive Officer of the City and County. The Mayor is elected to serve a four-year term with a limitation of two consecutive full terms. The next regular mayoral election is scheduled to take place in November 2016. The winner of the election will replace the current Mayor. The Mayor exercises direct supervision over all agencies specifically identified in the City Charter and, through the Managing Director, exercises supervision over all other executive agencies of the City and County.

*Department of Environmental Services.* The Department was established on July 1, 1998, pursuant to a plan of reorganization which combined certain components of the Department of Wastewater Management, the department which previously administered the Wastewater System, with other administrative departments having compatible functions. The Department, among other things, is charged with the responsibility to administer the planning, design and construction of wastewater facilities, oversee the operation and maintenance of sewer lines, treatment plants and pumping stations, monitor the collection, treatment and disposal of wastewater, provide pumping of cesspools, provide solid waste processing, collection and disposal, promulgate rules and regulations as necessary to administer and enforce requirements established by law, and perform such other duties as may be required by law. The Department consists of four divisions: Environmental Quality, Wastewater Treatment and Disposal, Collection System Maintenance, and Refuse Collection and Disposal, plus an Office of Administrative Support. Department programs are funded from two major sources: wastewater programs are funded through the Wastewater Enterprise Sewer Fund, and solid waste programs are funded through the Solid Waste Enterprise Solid Waste Fund.

*Power to Fix and Collect Rates and Charges.* By ordinance and resolution, the City Council requires that revenues of the Wastewater System be kept in the Sewer Fund and that the wastewater program shall be self-supporting. Consistent with such requirements, the Department is budgeted as a self-sustaining enterprise for the purpose of determining costs associated with providing wastewater services. Through the adoption of the annual operating and capital budgets, the revenue requirements and wastewater rates are reviewed to determine the adequacy of revenues to meet needs. Pursuant to the Act and the City Charter, the City Council has the power to impose, prescribe and collect rates, rentals, fees or charges for the use and services of, and the facilities furnished by, the Wastewater System so that the Wastewater System will be and remain self-sustaining. The rates, rentals, fees or charges imposed and prescribed are required to produce revenues which will be at least sufficient to pay debt service on all revenue bonds issued for the purposes of the Wastewater System, including the Bonds, and including reserves therefor, to pay the costs of operation, maintenance and repair of the Wastewater System, and to carry out the covenants of all resolutions authorizing the issuance of revenue bonds for the purposes of the Wastewater System, including the First Bond Resolution and the Second Bond Resolution. The rates and charges fixed and imposed by the City Council are not subject to approval by any federal or state regulatory bodies. Rates and charges are determined on the basis of a recommendation by the Director of Environmental Services and the Mayor, subject to approval by ordinance of the City Council. An ordinance requires three readings and a public hearing for enactment by the City Council.

#### **Department Principal Officers**

The principal officers of the Department include the Director, Deputy Directors and Executive Assistant. The following are brief biographies of the Department's principal officers:

*Lori M. Kahikina, P.E. Director.* Ms. Kahikina served as the Director of Environmental Services for three years. Prior to that, she was the Director of the Department of Design and Construction for the City and County of Honolulu. She has been in public service for about 10 years, and in wastewater management for over 19 years. Ms. Kahikina has a Bachelor of Science degree in Mechanical Engineering from the University of Hawaii and a professional license in Civil Engineering from the State of Hawaii. She has held several officer positions with Hawaii Water Environment Association including Secretary, Treasurer, Vice President, President, Past President and Chairing the large annual conference. She is a current member of the University of Hawaii Engineering Dean's Council and is an active member of the Innovation and Advocacy Committees.

*Timothy A. Houghton, Deputy Director.* Mr. Houghton was appointed Deputy Director, Department of Environmental Services, March 18, 2013. He previously served as Executive Assistant in the Department of Environmental Services, City and County of Honolulu since its creation on July 1, 1998, and previously served in that role in the former Department of Wastewater Management beginning in 1993. Mr. Houghton also served as Deputy Director of the Department from July 2003 to December 2004. Mr. Houghton has a Bachelor of Arts degree from San Francisco State University and a Master of Science in Systems Management degree from the University of Southern California. Mr. Houghton is member of the Board of Directors of the National Association of Clean Water Agencies (NACWA) having been elected in September 2008. NACWA provides one voice for clean water and its prominence as a nationally-recognized leader in environmental policy, and close working relationship with Congress and EPA, allow it to help shape the course of environmental protection into the next century. Mr. Houghton has led the organizations Clean Water Funding workgroup; been Vice-Chair of the Clean Water Funding Task Force; and, has been Vice-Chair of the Utility Management Committee.

*Ross S. Tanimoto, Deputy Director.* Mr. Tanimoto became Deputy Director on April 19, 2007. Mr. Tanimoto has been with the Department of Environmental Services and its predecessor agencies since 1992 and has served as both the Assistant Chief, Division of Environmental Quality, and Branch Chief, Monitoring and Compliance Branch. He has a Master of Science Degree in Mechanical Engineering from California State University, Long Beach, and Bachelor of Science degrees in Mechanical Engineering and Meteorology from the University of Hawaii. Mr. Tanimoto is a registered Professional Engineer in Mechanical Engineering in the States of Hawaii and California.

*Cyndy Aylett, Executive Assistant.* Ms. Aylett became Executive Assistant on July 1, 2014. She served as an Executive Assistant under the Managing Director's office from 2005 through 2012, managing streamlining, optimization, and revenue generation projects. Prior to coming to the Department of Environmental



Services, she managed a Federal grant for the Department of Facilities Maintenance. Her private sector experience spanned over 20 years in the areas of software system implementation, operations, product management and marketing for high-tech companies in the Silicon Valley. Ms. Aylett received her Bachelor of Science from Southern Oregon State College.

### **Department Work Force**

The Department's current operating budget provides for 782 full-time equivalent employees in various managerial, clerical, engineering and operational positions in support of wastewater activities. This work force, with the exception of 18 excluded and four exempt employees, comprises five separate bargaining units—one each for blue-collar non-supervisory employees, blue-collar supervisory employees, white-collar non-supervisory employees, white-collar supervisory employees, and professional and scientific employees.

The City and County has collective bargaining agreements with each of the Hawaii Government Employees Association ("HGEA"), which represents the bargaining units for blue-collar supervisory, white-collar non-supervisory, white-collar supervisory, and professional and scientific employees, and United Public Workers ("UPW"), which represents the bargaining unit for blue-collar non-supervisory employees. The HGEA collective bargaining agreement expires on June 30, 2015, but a new two year collective bargaining agreement for the period July 1, 2015, through June 30, 2017, has been ratified. The UPW collective bargaining agreement will expire on June 30, 2017.

Reference is made to "CERTAIN FINANCIAL, OPERATING AND OTHER INFORMATION AND STATISTICS – Employee Benefits" herein for a discussion of health care benefits, pension benefits and other post-employment benefits for which Department employees are eligible.

## **THE WASTEWATER SYSTEM**

### **Introduction**

As of June 30, 2014, the Wastewater System serviced approximately 145,700 separate accounts and a population of approximately 780,000, which is approximately 82% of the total population of the City and County based on the 2010 census. The population outside the service area is composed primarily of military bases with on-site treatment facilities and one private system. The remainder of the population is situated in widely distributed rural communities with wastewater service provided through individual wastewater treatment systems, including cesspools, septic tanks, and private systems serving multi-unit complexes and resorts. The service area covers nearly 600 square miles. The customer base includes the residential population, business and industrial users, and other users located in the service area. Of the approximately 145,700 accounts, approximately 137,200 are residential, which generate approximately 70.5% of the total revenue from sewer service charges; the remaining approximately 8,500 are non-residential, which generate approximately 29.5% of the total revenue from sewer service charges. See "CERTAIN FINANCIAL, OPERATING AND OTHER INFORMATION AND STATISTICS." In Fiscal Year 2015, the average volume of wastewater processed by the Wastewater System was approximately 106 MGD. The average volume of wastewater processed by private systems during the same period was approximately 4.2 MGD.

### **General Description of Existing Facilities**

The Wastewater System serving the island of Oahu is divided into eight wastewater basins for planning purposes: East Mamala Bay, West Mamala Bay, Kailua/Kaneohe/Kahaluu, North Oahu (West), North Oahu (East), Central Oahu, Waianae and Waimanalo. Each basin is served by a major wastewater treatment plant ("WWTP"). The function of each WWTP is to treat wastewater by removing or reducing organic and inorganic materials to levels that satisfy federal and state permit requirements for the discharge of such wastewater into the ocean, streams, reservoirs or injection wells. In addition to wastewater treatment plants, the Wastewater System includes collection, pumping and other related facilities with approximately 2,100 miles of pipe, 70 pumping stations, and four preliminary treatment facilities.

A description of the wastewater basins and major facilities is as follows:

*East Mamala Bay.* The largest and the most densely populated basin is East Mamala Bay. Approximately 361,500 people reside in East Mamala Bay, representing approximately 39% of the resident population of the entire island. The basin is served by the Sand Island WWTP, a primary treatment plant, and the largest treatment facility in the Wastewater System in terms of wastewater flow. The treatment plant has a primary treatment capacity of 94.5 MGD, and in Fiscal Year 2014, average daily flows were 58.3 MGD.

*West Mamala Bay.* West Mamala Bay is the second largest basin and includes Ewa, Central Oahu as far north as Mililani, and the Halawa to Pearl City area. The population of the basin area is approximately 292,500, or 35% of the estimated population of Oahu. The basin is served by the Honouliuli WWTP, which is the second largest treatment plant in the Wastewater System, with a primary treatment design capacity of 40 MGD and a secondary treatment design capacity of 13 MGD. In Fiscal Year 2014, average daily flows were 25.2 MGD. The secondary treated effluent is provided to a recycled water facility.

*Kailua/Kaneohe/Kahaluu.* The third largest basin includes the communities of Kailua, Kaneohe, and Kahaluu and surrounding areas in the eastern part of the island. The eastern portion of Oahu is also referred to as the Windward basin area. The basin area population is approximately 104,100, or approximately 12% of the island's population. The basin is served by the Kailua Regional WWTP, the third largest treatment plant in the Wastewater System. The Kailua WWTP has a design capacity of 16 MGD and in Fiscal Year 2014 average daily flows were approximately 10.3 MGD.

*North Oahu (East and West).* Most of the North Oahu area does not have centralized sewer service though there are three small facilities, including the Kahuku WWTP (0.4 MGD capacity, secondary), the Pa'alaa Kai WWTP (0.15 MGD capacity, secondary), and the formerly privately operated Laie Water Reclamation Facility (WRF) (0.9 MGD capacity, tertiary) which the City and County began operating on November 1, 2006. In Fiscal Year 2014, these facilities treated average daily flows of 0.18 MGD, 0.08 MGD and 0.44 MGD, respectively.

*Central Oahu.* Central Oahu (with a population of approximately 37,500, including military bases and the communities of Wahiawa and Whitmore Village) is served by the Wahiawa WWTP (2.6 MGD capacity, secondary with sand filtration). The average daily flows were 1.64 MGD in Fiscal Year 2014.

*Waianae.* The Waianae basin serves the west coast of the island, which has a population of approximately 44,500. The Waianae WWTP has the capacity to process 5.5 MGD at a secondary level. Average daily flows were 3.33 MGD in Fiscal Year 2014.

*Waimanalo.* The Waimanalo basin is served by the Waimanalo WWTP, a secondary plant with sand filtration and a capacity to process an average daily flow of 1.155 MGD. The City and County acquired ownership of the plant from the State of Hawaii in June 2014 after having operated the plant for the State since its opening. The WWTP serves the Waimanalo community, with a population of approximately 10,000. In Fiscal Year 2014 average daily flows were 0.54 MGD.

The Sand Island WWTP, the Honouliuli WWTP and the Kailua Regional WWTP are the three largest WWTPs. The remaining WWTPs provide treatment of wastewater to the rest of the island. Though the six basin areas of Central Oahu, North Oahu (East and West), Waianae, and Waimanalo comprise the majority of the geographical area of the island, the population density is much lower in comparison to the East and West Mamala Bay and the Kailua/Kaneohe/Kahaluu basin areas. The combined population of the six basin areas is less than 14% of the total population of Oahu. The total design capacity of the WWTPs in the six basin areas is approximately 9 MGD and the wastewater flow in Fiscal Year 2014 was 6.2 MGD. A private wastewater system provides collection and treatment for the community of Hawaii Kai. The Hawaii Kai system has an average flow of 4.2 MGD, including flows from the City and County's Kuliouou Wastewater Pumping Station ("WWPS"). The system processes about 4% of the average flow of the City and County's Wastewater System.

## Environmental Compliance

The WWTPs and other facilities operated by the Department are governed either by National Pollutant Discharge Elimination System (NPDES) permits or by State of Hawaii Department of Health Underground Injection Control or Wastewater Management permits.

The NPDES permits for the City and County's two largest treatment plants, Sand Island WWTP and Honouliuli WWTP, expired on November 3, 2003, and June 5, 1996, respectively, and were reissued with effective dates of January 1, 2015, and March 30, 2014, respectively. The NPDES permit for the Kailua WWTP expired on June 30, 2009, and was reissued with an effective date of March 16, 2014. The NPDES permit for the Waianae WWTP was issued on May 26, 2011, with an effective date of June 26, 2011. The City and County is contesting certain permit conditions for the above permits, all of which have been stayed pending further review and consideration by the State of Hawaii Department of Health.

One air consent order is currently in effect between the State of Hawaii Department of Health and the City and County relating to air quality at the Kailua WWTP. The consent orders each provide for the payment of stipulated penalties when air quality limits are exceeded.

- The Sand Island Air Consent Order was terminated on March 11, 2013. In Fiscal Years 2011, 2012 and 2013, the City and County paid \$283,500, \$28,500 and \$6,000, respectively, in stipulated penalties.
- The Kailua Air Consent Order is effective until December 31, 2016. In Fiscal Years 2012, 2013 and 2014, the City and County paid \$132,000, \$28,500 and \$6,000, respectively, in stipulated penalties.
- The Honouliuli Air Consent Order terminated on February 13, 2012. No stipulated penalties were paid for the duration of the Consent Order.

In addition, during the course of operating the Wastewater System, occasional noncompliances with other permits, laws, and regulations occur, including:

- Wastewater spills, which are subject to reporting pursuant to the NPDES permits, the 2010 Consent Decree described below, and State of Hawaii Department of Health regulations.
- Exceedances of interim effluent limits set forth in the 2010 Consent Decree for the Sand Island and Honouliuli WWTPs, which are reported monthly with the discharge monitoring reports for the plants.
- Exceedances of effluent limits set forth in the NPDES permits for the WWTPs, which are reported monthly with the discharge monitoring reports for the plants.

These incidences of noncompliance are not currently the subject of existing or threatened enforcement.

The City and County is complying with the terms of a consent decree entered on December 17, 2010 (the "2010 Consent Decree"), by the United States District Court for the District of Hawaii to resolve the claims of the United States Environmental Protection Agency ("EPA"), the State of Hawaii Department of Health ("DOH"), and various non-governmental entities (collectively, the "NGOs") related to the City and County's compliance with the federal Clean Water Act and State law. The 2010 Consent Decree allows ten years for completion of work on improvements to the collection system, 14 years for the upgrade of the Honouliuli WWTP to secondary treatment, and up to 25 years, with the possibility of a three-year extension, for the upgrade of the Sand Island WWTP to secondary treatment. Upon entering the 2010 Consent Decree, the City and County was expected to incur approximately \$3.5 billion in capital costs through Fiscal Year 2020 (which coincides with the term of the collection system portion of the 2010 Consent Decree). This amount will largely be spent on the collection system, and much of it will go toward work that was already required or planned. This amount also includes a portion of the

costs of treatment plant upgrades at Sand Island and Honouliuli. Costs for the treatment plant upgrades included approximately \$550 million to replace primary treatment facilities at both plants and \$1.15 billion to upgrade the plants to secondary treatment plants.

In March 2012, after providing an opportunity for public comment, the court approved an order at the request of all of the parties to modify the 2010 Consent Decree to substitute construction of a Kaneohe-Kailua gravity tunnel and an associated influent pump station for the construction of a new force main between the Kaneohe pump station and its Kailua treatment plant and to eliminate requirements to proceed with and maintain storage projects in Kaneohe and Kailua. The court order was the culmination of a year of negotiations among the parties after the EPA and DOH determined that the tunnel proposal offered potential environmental benefits. The Kaneohe-Kailua tunnel is presently under construction.

See “CAPITAL IMPROVEMENT PROGRAM” below.

### Projected Customer Growth

As shown on Tables 1 and 2 below, the resident population in Oahu, the area served by the Wastewater System, is projected to grow modestly through 2040. The average annual population increase between 2010 and 2040 is projected to be 5,084, or roughly 0.5% annually. Consequently, population growth is not a significant driver in the 2011-2030 Capital Improvement Program.

The majority of growth between the years 2010 and 2040 is expected to occur in East and West Mamala Bay. Of the total population growth projected to occur during this period, approximately 95,000, or 71%, is expected to take place in West Mamala Bay, and approximately 34,000, or 25%, is expected to occur in East Mamala Bay.

**Table 1**  
**Actual and Projected Resident Population**  
**by Basin, Oahu, 2010-2040**

<u>Basin</u>	<u>2010</u>	<u>2020</u>	<u>2030</u>	<u>2040</u>	<u>2010-2040 Average Annual Change</u>
Kahuku	5,657	8,636	8,844	7,933	76
Laie	7,643	6,263	6,492	8,313	22
Kailua-Kaneohe	111,025	105,026	102,334	108,574	-82
Waimanalo	10,021	11,092	10,909	10,752	24
East Mamala Bay	356,227	376,928	387,511	390,141	1,130
West Mamala Bay	292,468	328,370	367,765	419,120	3,170
Waianae	44,490	46,776	48,667	53,594	169
Wahiawa	37,504	36,973	36,028	39,563	-55
North Shore	<u>17,724</u>	<u>18,770</u>	<u>19,375</u>	<u>15,389</u>	<u>4</u>
Total	919,611	938,834	987,925	1,053,379	4,459

Source: City and County of Honolulu, Department of Environmental Services; City and County of Honolulu, Department of Planning and Permitting, 2009.

### CAPITAL IMPROVEMENT PROGRAM

The Department staff manages and updates at least annually a long-range Capital Improvement Program (the “CIP”) to achieve several goals. The CIP is a long-range planning tool used to estimate project costs and timing of expenditures over a 20-year period, currently through 2030. The Department has developed the 2016-

2020 Capital Improvement Program, the 2016-2025 Capital Improvement Program and the 2011-2030 Capital Improvement Program. The 2016-2020 Capital Improvement Program and the 2016-2025 Capital Improvement Program are part of this 20-year plan. The Department develops the CIP with the objective of providing safe and reliable facilities to process the wastewater discharge of all sewer customers throughout Oahu. CIP projects are needed to meet the requirements of the 2010 consent decree, for the rehabilitation of existing facilities, the expansion of capacity to accommodate growth, and the improvement of facilities and processes.

### **Criteria for Ranking CIP Projects by Priority**

The Department considers the CIP to be a flexible tool which allows the Department staff to determine the impact of adjusting the phasing and priority of projects. As of July 2015, the long-range CIP covering the 20-year period from 2001 through 2020 included a list of projects with estimated appropriations totaling approximately \$4.9 billion (in inflated dollars). Many of the projects shown in the CIP may not begin in the year specified or at all if needs change. The Department staff has developed a policy for ranking the CIP projects by priority to determine order and timing of projects. The policy is shown in the following table, with the highest priority criteria listed first:

**Table 2**

#### **Priority for CIP Projects**

<b><u>Priority Class</u></b>	<b><u>Description</u></b>
I	Safety and public health – immediate
II	Protection of the environment – immediate
III	Permit and regulatory compliance – immediate
IV	Completion of ongoing projects
V	Preventive
VI	Funding requirements
VII	System expansion
VIII	Other

The rankings are intended as guidelines for CIP project planning, not as hard and fast rules. A project considered in a low priority class may be upgraded to a high priority position in the CIP due to any number of factors. For example, if a service area is very close to reaching and surpassing the capacity of its wastewater facilities, the expansion of the system in that area rises in priority. System expansion can entail projects which affect permit and regulatory compliance, protection of the environment, or safety and public health. Through the use of these guidelines combined with analyses of funding and other resource constraints, Department staff can develop a CIP which best satisfies the needs of the Department customer base. The 2011-2030 Capital Improvement Program was developed using these CIP guidelines and constitutes the current 20-year CIP.

### **Classification of CIP Projects**

The City and County expects to use various funding sources to finance CIP projects: (i) proceeds of Senior Bonds and Subordinate Obligations previously issued and currently available, (ii) proceeds of additional Senior Bonds (including the Series 2015 Bonds) and Subordinate Obligations (currently expected to consist primarily of State Revolving Fund loans) to be issued, (iii) the Net Revenues of the Wastewater System, and (v) Wastewater System Facility Charges. Revenues from Wastewater System Facility Charges are intended to cover a portion of the project expenditures relating to expansion of the Wastewater System to serve future growth in the number of customers. Revenues from sewer service charges are earmarked for the expenditures resulting from rehabilitation or upgrade of the wastewater system for existing users. To effectively determine the costs to be recouped by these respective charges, the Department makes a fair estimate of the share of costs attributable to expansion and rehabilitation. Where an improvement benefits both existing and future users, the Department identifies the relative portion allocable to each. The classes of CIP projects include system expansion, system upgrade, and replacement/rehabilitation.

*System expansion:* Improvements which increase the design capacity of treatment, transmission, or support facilities and equipment to accommodate new or future growth. Future users would finance system expansion project costs partially through revenues from Wastewater System Facility Charges.

*System upgrade:* Improvements which upgrade the service level standard. For example, an upgrade to secondary treatment processes where only primary treatment processes were used. To fairly allocate costs between future and existing users, the portions of upgrade costs attributable to expansion and current use must be identified.

*Replacement/rehabilitation:* Improvements which replace or rehabilitate facilities serving existing development. Existing users pay the costs of replacement and rehabilitation projects through sewer service charges.

## 2016-2020 Capital Improvement Program

To meet the 2010 Consent Decree entered into by the Department with Federal and State regulatory bodies and to reliably serve projected growth in the number of customers served by the Wastewater System, the Department has developed and adopted the 2016-2020 Capital Improvement Program. The additions and improvements to the Wastewater System, the costs of which are to be financed in part from the proceeds of the Series 2015 Bonds, are part of the 2016-2020 Capital Improvement Program. The City and County expects to appropriate approximately \$2.3 billion (in inflated dollars) for the 2016-2020 Capital Improvement Program. A portion of these appropriations will actually be expended after the 2016-2020 period. The projected appropriations for the various CIP projects of and the expected sources of funding for the 2016-2020 Capital Improvement Program are set forth in the following tables.

**Table 3**  
**Projected Appropriations for**  
**2016-2020 Capital Improvement Program**  
**(Dollars in Thousands)**

<u>Project</u>	<u>Projected Cost</u>
CIP Projects	\$2,241,695
Project Management	43,542
Capital Equipment	49,113
Total	\$2,334,350

**Table 4**  
**Expected Sources of Funding for**  
**2016-2020 Capital Improvement Program**  
**(Dollars in Thousands)**

<u>Funding Source</u>	<u>Projected Amount</u>
Subordinate Obligations <sup>1</sup>	\$ 50,000
Facility Charges <sup>2</sup>	54,560
Net Revenues <sup>3</sup>	610,123
Additional Revenue Bonds	1,619,667
Total	\$2,334,350

<sup>1</sup> State Revolving Fund loan proceeds.

<sup>2</sup> Fees collected for new Wastewater System connections.

<sup>3</sup> Cash funded CIP.

## 2016-2025 Capital Improvement Program

The 2016-2025 Capital Improvement Program is part of the 2011-2030 Capital Improvement Program. The City and County expects to appropriate approximately \$6.6 billion (in inflated dollars) for the 2016-

2025 Capital Improvement Program. A portion of these appropriations will actually be expended after the 2016-2025 period. The projected appropriations for the various CIP projects of and the expected sources of funding for the 2016-2025 Capital Improvement Program are set forth in the following tables.

**Table 5**  
**Projected Appropriations for**  
**2016-2025 Capital Improvement Program**  
**(Dollars in Thousands)**

<b><u>Project</u></b>	<b><u>Projected Cost</u></b>
CIP Projects	\$6,287,822
Project Management	130,652
Capital Equipment	<u>149,113</u>
Total	\$6,567,587

**Table 6**  
**Expected Sources of Funding for**  
**2016-2025 Capital Improvement Program**  
**(Dollars in Thousands)**

<b><u>Funding Source</u></b>	<b><u>Projected Amount</u></b>
Subordinate Obligations <sup>1</sup>	\$ 150,000
Facility Charges <sup>2</sup>	191,128
Net Revenues <sup>3</sup>	3,086,177
Additional Revenue Bonds	<u>3,140,282</u>
Total	\$6,567,587

<sup>1</sup> State Revolving Fund loan proceeds.

<sup>2</sup> Fees collected for new Wastewater System connections.

<sup>3</sup> Cash funded CIP.

#### **2011-2030 Capital Improvement Program**

The 2011-2030 Capital Improvement Program is the current twenty-year CIP the Department has undertaken. The City and County expects to appropriate approximately \$7.8 billion (in inflated dollars) for the 2011-2030 Capital Improvement Program. A portion of these appropriations will actually be expended after the 2011-2030 period. The projected appropriations for the various CIP projects of and the expected sources of funding for the 2011-2030 Capital Improvement Program are set forth in the following tables.

**Table 7**  
**Projected Appropriations for**  
**2011-2030 Capital Improvement Program**  
**(Dollars in Thousands)**

<b><u>Project</u></b>	<b><u>Projected Cost</u></b>
CIP Projects	\$7,469,731
Project Management	170,125
Capital Equipment	<u>190,167</u>
Total	\$7,830,022

**Table 8**  
**Expected Sources of Funding for**  
**2011-2030 Capital Improvement Program**  
**(Dollars in Thousands)**

<u>Funding Source</u>	<u>Projected Amount</u>
Subordinate Obligations <sup>1</sup>	\$ 314,038
Facility Charges <sup>2</sup>	218,074
Net Revenues <sup>3</sup>	3,086,177
Prior Bonds <sup>4</sup>	0
Revenue Bonds <sup>5</sup>	<u>4,211,733</u>
Total	\$7,830,022

<sup>1</sup> State Revolving Fund loan proceeds.

<sup>2</sup> Fees collected for new Wastewater System connections.

<sup>3</sup> Cash funded CIP.

<sup>4</sup> Consists of reimbursable general obligation bonds issued prior to adoption of Bond Resolution.

<sup>5</sup> Includes \$\_\_\_\_\_ of proceeds from revenue bonds previously issued and \$\_\_\_\_\_ of proceeds from additional revenue bonds expected to be issued in the future.

### **HISTORICAL AND PROJECTED REVENUES, EXPENSES AND COVERAGES**

Since its initial revenue bond issue in 1998, the Department has exceeded coverage requirements under the Bond Resolution annually. Table 10 below sets forth historical (actual and budgeted) revenues, expenses and debt service coverage of the Wastewater System for Fiscal Years 2013 through 2016 and projected revenues, expenses and debt service coverage of the Wastewater System for Fiscal Years 2017 through 2020.



**Table 9**

**Historical and Projected Revenues, Expenses and Debt Service Coverages**  
**(Dollars in Thousands)**  
**(Fiscal Year Ending June 30)**

	<u>Actual</u>		<u>Budgeted</u>		<u>Projected</u>			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Revenues <sup>1</sup>								
Sewer Service Charges <sup>2</sup>	\$355,833	\$388,478	\$377,185	\$397,222	\$429,693	\$452,494	\$476,492	\$506,299
Interest Earnings <sup>3</sup>	476	489	4,919	418	5,321	5,246	5,020	4,702
BABs/RZEDBs Subsidy <sup>4</sup>	6,010	5,528	5,421	5,367	5,421	5,421	5,421	5,421
Other Revenues <sup>5</sup>	231	750	628	584	167	168	169	170
Total Revenues	\$362,550	\$395,245	\$383,153	\$403,591	\$440,602	\$463,329	\$487,102	\$516,592
Operating Expenses <sup>6</sup>	\$128,812	\$132,112	\$163,220	\$163,477	\$162,921	\$170,914	\$177,125	\$182,691
Net Revenues	\$233,737	\$263,133	\$220,476	\$240,114	\$277,637	\$292,369	\$309,931	\$333,855
Annual Debt Service								
Senior Lien Bonds <sup>7</sup>	\$ 72,917	\$ 81,953	\$ 82,694	\$ 87,316	\$107,083	\$129,461	\$150,541	\$171,194
D/S Coverage <sup>8</sup>	3.21x	3.21x	2.72x	2.75x	2.59x	2.26x	2.06x	1.95x
Senior and Junior Lien Bonds <sup>7,9</sup>	\$108,986	\$118,025	\$118,767	\$123,389	\$143,155	\$165,536	\$186,625	\$207,276
D/S Coverage <sup>8</sup>	2.14x	2.23x	1.86x	1.95x	1.94x	1.77x	1.66x	1.61x
Total Obligations <sup>10</sup>	\$135,214	\$142,439	\$141,770	\$146,828	\$167,099	\$189,653	\$210,165	\$230,393
D/S Coverage <sup>8</sup>	1.76x	1.89x	1.66x	1.71x	1.74x	1.60x	1.53x	1.50x

<sup>1</sup> Does not include Wastewater System Facility Charges, which are pledged under the Bond Resolution but are not defined in Revenues.

<sup>2</sup> Sewer service charges increased by 4% in Fiscal Year 2013, 4% in Fiscal Year 2014, and 4% in Fiscal Year 2015. Projections reflect approved increases of 5% in Fiscal Year 2016, 8% in Fiscal Year 2017, and projected increases of 5% in each of Fiscal Years 2018 and 2019 and 6% in Fiscal Year 2020.

<sup>3</sup> The interest rate used to project earnings is 1% for Fiscal Year 2013 and for each fiscal year thereafter.

<sup>4</sup> Includes Refundable Credits in the form of federal interest subsidies received with respect to the Series 2009B and 2009C Bonds and Subseries 2010B Bonds issued under the Bond Resolution. Under the current provisions of the Bond Resolution, such interest subsidies are not treated as Revenues in the year of receipt for purposes of the rate covenant, additional bonds test or other calculations of the ratio between Net Revenues and Debt Service. However, if initially deposited in the Rate Stabilization Account and subsequently transferred to the Sewer Fund within 90 days following the end of a fiscal year, such interest subsidies may be treated as Revenues in the year of the transfer. See "SECURITY FOR THE BONDS – Proposed Amendments to Bond Resolution" for a discussion of certain proposed amendments to such provisions.

<sup>5</sup> Other revenues reflect overtime reimbursement from contractors for overtime inspection of construction projects. As a widely variable amount, revenue projections are maintained at a lower level beyond budgeted years.

<sup>6</sup> Operating expense projections reflect both anticipated operational changes and beyond Fiscal Year 2015 are inflated at 3% per year for expenses, 4% in Fiscal Year 2017 for salary costs and 3% thereafter, 6% in Fiscal Year 2017 through 2019 for fringe benefit costs 3% for Fiscal Year 2020. Operating expenses do not include debt service, depreciation, or cash expenditures on capital improvements. Cash expenditures on capital improvements were between \$73 and \$70.5 million for Fiscal Years 2013 and 2014, and increased to approximately \$80 million in Fiscal Years 2015 and \$70 million in Fiscal Year 2016 reflecting funds generated through previous years coverage earnings.

<sup>7</sup> Includes actual debt service for outstanding Senior Bonds, estimated debt service for Series 2015 Bonds, and assumes a 5.5% interest rate for additional issues of Senior Bonds.

<sup>8</sup> Minimum debt service coverage requirements are: Senior Lien Bonds – 1.2x; Senior and Junior Lien Bonds – 1.1x; Total Obligations – 1.0x. Debt service coverage for Total Obligations includes revenue from System Facility Charges. System Facility Charge revenues are shown in Table 28.

<sup>9</sup> Includes actual debt service for outstanding Junior Bonds.

<sup>10</sup> Includes actual debt service for existing obligations including Senior and Junior Bonds; Reimbursable General Obligation Bonds; State Revolving Fund loans; and any other debt obligations and assumes future interest rates for Revenue Bonds as indicated above.

## CERTAIN FINANCIAL, OPERATING AND OTHER INFORMATION AND STATISTICS

### Management's Discussion of Financial Performance

In the period since the wastewater program became fully self-supporting in 1993, the program's financial position has been consistently strong. The change to enterprise fund status in 1998 further strengthened the position of the utility through clearer definition of enterprise assets, understanding of their current value, and clarity in responsibilities. The sale of the initial wastewater revenue bonds in 1998, accompanied by a strong debt and

financial policy adopted by the City Council, served to insure a continuing commitment to a strong financial posture for the wastewater enterprise.

In 2011, the City and County adopted a rate ordinance providing for increases in wastewater rates and future rate adjustments for the period from July 1, 2011, through June 30, 2017. In May 2012, the City and County adopted Ordinance No. 12-7 providing for structural, but revenue neutral, changes to wastewater rates from July 1, 2012 through June 30, 2017. See "Rates and Charges" below. Revenues have been sufficient throughout the period to meet all operation and maintenance and debt service requirements, including coverage. The significant base component of the rate structure and growth in customers prevents changes in water use from having a major impact on revenues. The sewer service charge program will remain strong reflecting the high residential component of wastewater customers and the lack of any single large commercial customer.

The Wastewater System Facility Charge accounts for approximately 1.2% of revenues, is solely dedicated to expansion, and is not considered when calculating debt service coverage for the Bonds and Subordinate Obligations. Wastewater System Facility Charge revenue peaked in Fiscal Year 2006 representing construction occurring in Fiscal Year 2007. Revenue fluctuations are due largely to the timing of major development projects. This revenue source reflects the limited growth of service area population and generally only the redistribution of that population. As such, it is not considered a major source of funds on which to base financial capability.

Efforts continue to control expenses, however, cost escalation, additional facilities, and increased operational requirements have resulted in higher operating budgets. Continuing analyses of operational procedures and increased automation opportunities are expected to help control expenses in the long term.

Net revenues have increased through Fiscal Year 2014, reflecting increased revenue from rate increases. The enterprise has continued to maintain a surplus throughout that period. Revenues are expected to exceed projections for Fiscal Year 2015 and the Department expects to meet or exceed revenue projections for Fiscal Year 2016. This consistency in revenues is due to the lack of reliance on a specific business or industry as a major source of revenue. The residential customer class continues to pay water/sewer bills without a significant increase in delinquencies. Further, revenue projections are conservative and have been consistently exceeded in previous years. Net revenues are being increasingly used for cash funding of capital improvement programs in current and future years.

As part of the commitment to ensure the financial strength of the Wastewater System, the City Council adopted Ordinance No. 05-006 on March 31, 2005, pledging not to transfer Sewer Fund monies to the City and County's General Fund.

In the opinion of the Department, the financial position of the Wastewater System is strong, with a substantial reserve balance which provides reasonable protection against unforeseen events and financial flexibility for the future. Financial planning continues to identify the best alternative to maintain a strong financial posture while providing quality service to the customer and the community at a reasonable price. City Council and administration policies support the continuing revenue levels necessary to provide for current and future requirements.

See Appendix A, "Economic and Demographic Factors," for a discussion of certain economic conditions that could potentially impact the City and County's revenues.

## Billing and Collection

100% of Wastewater System sewer service charge billing is done by the Board of Water Supply through inclusion as a separate portion of the water bill. The delinquency rate for this billing program (*i.e.*, the dollar amount of bills more than 60 days past due expressed as a percentage of total revenues) during fiscal years 2012, 2013 through 2014 was 0.92%, 1.00%, and 1.3%, respectively. Should bills not be paid, the authority exists, and has been exercised, to terminate water service for nonpayment of water and sewer service charges or to physically disconnect wastewater service.

In May 2012, the City and County adopted Ordinance No. 12-7 providing for structural, but revenue neutral, changes to wastewater rates effective from July 1, 2012 through June 30, 2017. Billing for non-residential customers using the new rate structure was temporarily deferred and implemented in January 2013. The approved rate changes for these customers were implemented during the deferral period using the previous structure.

## Ten Largest Customers

The ten largest customers of the Wastewater System in Fiscal Year 2014 (see table below) account for 6.33% of the annual sewer service charge revenues of the system.

**Table 10**

### **Ten Largest Customers Fiscal Year 2014<sup>1</sup>**

<b><u>Customer</u></b>	<b><u>Sewer Service Charges</u></b>	<b><u>Percentage of Sewer Service Charge Revenues</u></b>
Airport Maintenance	\$ 5,016,369	1.30%
GGP Ala Moana LLC	4,486,135	1.17%
University of Hawaii	4,250,574	1.11%
Hilton Hotels Corporation	3,601,515	0.94%
Sheraton Waikiki Hotel	1,459,850	0.38%
United Laundry Service	1,440,665	0.37%
Royal Hawaiian Shopping Center	1,090,177	0.28%
DEG LLC	1,047,941	0.27%
Queens Medical Center	1,029,053	0.27%
Hyatt Regency Waikiki	928,866	0.24%
Total	24,351,145	6.33%

<sup>1</sup> Totals may not add due to rounding.

## Certain Operating and Financial Statistics

Certain operating and financial statistics of the Department are summarized in the following tables. Unless otherwise noted, tables provided herein contain data furnished by the City and County.

**Table 11**

### **WW Customer Accounts as of June 2015**

Customer Class	Sewer Regular Monthly Charges	Cesspool Per Call	Non- residential SS surcharge	Total	Percent Accounts
<b>1 - Public Sewer</b>					
10 – Single family/duplex	130,145	462	0	130,607	91.15%
15 – Mixed residential	204	0	0	204	0.14%
20 - Multi-family	5,885	0	0	5,885	4.11%
25 – Mixed users	357	0	0	357	0.25%
<b>WW Res Accts</b>	<b>136,591</b>	<b>462</b>	<b>0</b>	<b>137,053</b>	<b>95.65%</b>
30 – Commercial	4,843	0	0	4,843	3.38%
40- Hotels	228	0	0	228	0.16%
50 – Industrial	334	0	0	334	0.23%
61 - US Military Installation	5	0	0	5	0.00%
62 - US Non-military	24	0	0	24	0.02%
63 - State	202	0	0	202	0.14%
65 - City	146	0	0	146	0.10%
70 – Agriculture	2	0	0	2	0.00%
80 – Religious	456	0	0	456	0.32%
<b>WW Non-res Accts</b>	<b>6,240</b>	<b>0</b>	<b>0</b>	<b>6,240</b>	<b>4.35%</b>
<b>Total WW Accts</b>	<b>142,831</b>	<b>462</b>	<b>0</b>	<b>143,293</b>	<b>100.00%</b>
<b>% WW Accts</b>	<b>99.68%</b>	<b>0.32%</b>	<b>0.00%</b>	<b>100.00%</b>	

**Table 12**

**History of New Sewer Connections by Type**

Fiscal Year Ended June 30	Single Family	Multi Family		Nonresidential	Total
	<u>New Units</u>	<u>New Units</u>	<u>ESDUs</u>	<u>ESDUs</u>	<u>ESDUs</u>
2008	307	874	612	24	943
2009	437	780	546	15	998
2010	221	324	227	0	448
2011	403	739	517	79	999
2012	756	758	531	63	1,349
2013	230	1,241	838	30	1,098
2014	60	736	497	59	616
Five year average	334	760	522	46	948
Projected annual growth	1,200	529	370	30	1,600

**Table 13**

**Existing Sewer Users  
Fiscal Year Ended June 30, 2014**

<b><u>Customer Classification</u></b>	<b><u>Number of Living Units</u></b>	<b><u>Number of Equivalent Single-Family Dwelling Units (ESDUs)</u></b>	<b><u>Estimated Wastewater Flow (MGD)</u></b>
Residential			
Single family/duplex	137,689	137,689	41.995
Multi-family residences	123,881	86,089	26.257
Less: Hawaii Kai	994	994	0.303
Total residential	260,576	222,784	67.949
Nonresidential	--	78,472	23.934
Infiltration/Inflow	--	--	<u>13.717</u>
Total	260,576	301,256	105.60

**Table 14**

**Historic Population Growth  
Oahu, 2004 - 2013**

<b><u>Calendar Year</u></b>	<b><u>Resident Population</u></b>	<b><u>De facto Population<sup>1</sup></u></b>
2004	907,997	949,262
2005	918,181	959,340
2006	926,954	967,400
2007	925,335	963,577
2008	933,680	962,908
2009	943,177	972,202
2010	953,207	987,936
2011	955,629	999,803
2012	974,990	1,017,724
2013	983,429	1,029,798

<sup>1</sup> Includes visitor population.

Source: State of Hawaii, Department of Business, Economic Development & Tourism, Data Book, 2013.

**Table 15****Number of Equivalent Single-Family Dwelling Units (ESDUs)**

<b>Fiscal Year Ending June 30</b>	<b>Single-Family Units</b>	<b>Multifamily Units</b>	<b>ESDUs</b>	<b>Commercial ESDUs</b>	<b>Total ESDUs</b>
2005	132,115	113,386	78,791	78,032	288,938
2006	133,325	115,050	79,956	78,034	291,315
2007	135,275	118,429	82,321	78,202	295,798
2008	135,582	119,303	82,933	78,226	296,741
2009	136,019	120,083	83,479	78,241	297,739
2010	136,240	120,407	83,706	78,241	298,187
2011	136,643	121,146	84,223	78,320	299,186
2012	137,399	121,904	84,754	78,383	300,536
2013	137,629	123,145	85,892	78,413	301,634
2014	137,689	123,881	86,089	78,472	302,250

**Table 16****Wastewater Flows by Treatment Facility (MGD) <sup>1</sup>**

<b>Treatment Facility <sup>2</sup></b>	<b>Design Capacity <sup>3</sup></b>	<b>2014 Flow <sup>4</sup></b>	<b>Projected Flow (2020)</b>
Sand Island	94.50	58.33	92.60
Kahuku WWTP	0.40	0.18	0.15
Honouliuli WWTP	38.00	25.22	32.80
Waimanalo WWTP	1.10	0.54	0.62
Kuliouou WWPS (Hawaii Kai WWTP) <sup>2, 4</sup>	--	0.51	0.38
Wahiawa WWTP	2.50	1.64	1.89
Kailua WWTP	15.25	10.29	13.40
Waianae WWTP	5.20	3.33	3.50
Paalaa Kai WWTP	0.14	0.08	0.14
Laie WRF	0.90	0.44	0.63
<b>TOTAL:</b>	<b>145.49</b>	<b>105.95 <sup>2</sup></b>	<b>146.11</b>

<sup>1</sup> Average day annual flow (ADAF), MGD.

<sup>2</sup> Does not include 0.51 MGD of flow from the City and County's Kuliouou WWPS which is treated by the Hawaii Kai WWTP, a private treatment facility.

<sup>3</sup> ADAF estimated based on 105% of design capacity for average dry weather flow.

<sup>4</sup> The Kuliouou WWPS does not provide treatment, but pumps wastewater from a Department Collection System to a private treatment plant (Hawaii Kai WWTP). Inclusion here is to show total volume of wastewater handled by the Department.

**Table 17**

**History of Major Wastewater Revenue Sources**

<b>Fiscal Year Ended June 30</b>	<b>Sewer Service Charges<sup>1</sup></b>	<b>Wastewater System Facility Charges<sup>2</sup></b>
2005	112,746,082	\$5,339,119
2006	142,167,282	8,822,000
2007	160,963,313	4,691,000
2008	219,906,956	5,024,765
2009	250,264,958	1,555,359
2010	299,501,972	6,686,130
2011	343,659,885	3,224,263
2012	357,158,868	5,093,736
2013	368,124,784	4,056,750
2014	384,095,528	5,965,191

<sup>1</sup> Sewer service charge only - does not include connection or lateral installation charges.

<sup>2</sup> Fluctuations in Wastewater System Facility Charges are due largely to the timing of major development projects.

**Rates and Charges**

In June 2011, the City and County adopted a rate ordinance providing for increases in wastewater rates and future rate adjustments over the six-year period from July 1, 2011 through June 30, 2017. In May 2012, the City and County adopted Ordinance No. 12-7 providing for structural, but revenue neutral, changes to wastewater rates from July 1, 2012 through June 30, 2017. The schedule of rates under the Ordinance No. 12-7 is intended to allow for financial planning and projection for the Department and the City and County. Tables 29 and 30 below set forth schedules under the Ordinance No. 12-7 for residential and non-residential users, respectively. Table 31 sets forth a schedule of Wastewater System Facility Charge adjustments, effective July 1, 2012 (Ordinance No. 12-7) through June 30, 2017.

**Table 18**

**Schedule of Residential Sewer Service Charges**

	Effective July 1 of:	
<b>Single-family and duplex dwellings served by city water system per dwelling unit per month:</b>		
1. Monthly base charge	2012	\$63.23
	2013	65.76
	2014	68.39
	2015	71.81
	2016	77.55
2. Charge per 1,000 gallons of metered water consumed, the water consumed reduced by the water irrigation factor of 20%; provided that residential users who install and maintain a water meter for submetering nonsewer water shall not have the water consumed reduced by the water irrigation factor.	2012	\$3.77
	2013	3.93
	2014	4.08
	2015	4.29
	2016	4.63
<b>Single-family and duplex dwellings not served by city water system per dwelling unit per month</b>		
	2012	\$90.14
	2013	94.03
	2014	97.79
	2015	102.68
	2016	110.89
<b>Multiple-unit dwellings served by city water system per dwelling unit per month</b>		
1. Monthly base charge	2012	\$43.47
	2013	45.21
	2014	47.02
	2015	49.37
	2016	53.32
2. Charge per 1,000 gallons of metered water consumed, the water consumed reduced by the water irrigation factor of 20%; provided that residential users who install and maintain a water meter for submetering nonsewer water shall not have the water consumed reduced by the water irrigation factor.	2012	\$3.77
	2013	3.93
	2014	4.08
	2015	4.29
	2016	4.63
<b>Multiple-unit dwellings not served by city water</b>		
	2012	\$70.65
	2013	73.47
	2014	76.41
	2015	80.23
	2016	86.65



**Table 19**

**Schedule of Non-Residential Sewer Service Charges**

**Effective July 1 of:**

**Domestic Strength Wastewater:**

**1. Metered Water Usage:**

(1) Monthly base charge per Equivalent Single Family Dwelling Unit (ESDU):	2012	\$63.23
	2013	65.76
	2014	68.39
	2015	71.81
	2016	77.55

(2) Charge per 1,000 gallons of metered water consumed, the water consumed reduced by the water irrigation factor of 20%:	2012	\$3.77
	2013	3.93
	2014	4.08
	2015	4.29
	2016	4.63

**2. Metered Wastewater Discharge:**

(1) Monthly base charge per Equivalent Single Family Dwelling Unit (ESDU):	2012	\$63.23
	2013	65.76
	2014	68.39
	2015	71.81
	2016	77.55

(2) Charge per 1,000 gallons:	2012	\$3.77
	2013	3.93
	2014	4.08
	2015	4.29
	2016	4.63

**Extra Strength Wastewater**

1. Charge per 1,000 gallons of metered water consumed, the water consumed reduced by the water irrigation factor of 20%, use the following formula:	2012	\$3.77
	2013	3.93
0.857 + 0.143(SSm/200) multiplied by applicable rate	2014	4.08
	2015	4.29
	2016	4.63
2. Charge per 1,000 gallons of wastewater discharge, use the following formula:	2012	\$3.77
	2013	3.93
0.857 + 0.143(SSm/200) multiplied by applicable rate	2014	4.08
	2015	4.29
	2016	4.63

**Table 20**

**Schedule of Wastewater System Facility Charges**

- (1) Residential wastewater system facility charge per ESDU:

<b><u>Fiscal Year</u></b>	<b><u>Amount</u></b>
2011/12	\$5,707
2012/13	5,878
2013/14	6,055
2014/15	6,236
2015/16	6,424
2016/17	6,616

- (2) Low-income housing wastewater system facility charges per ESDU:

<b><u>Fiscal Year</u></b>	<b><u>Amount</u></b>
2011/12	\$1,180
2012/13	1,216
2013/14	1,252
2014/15	1,290
2015/16	1,329
2016/17	1,368

- (3) Nonresidential wastewater system facility charge for domestic strength wastewater per ESDU:

<b><u>Fiscal Year</u></b>	<b><u>Amount</u></b>
2011/12	\$5,707
2012/13	5,878
2013/14	6,055
2014/15	6,236
2015/16	6,424
2016/17	6,616

- (4) Nonresidential wastewater system facility charge for extra-strength wastewater per ESDU based on the following formula:

$$\text{Wastewater System Facility Charge for extra-strength wastewater} = A + ((\text{SSi}/200) \times B)$$

where SSi = the imputed suspended solids loading, in mg/L and applicable values for terms "A" and "B" are set forth as follows:

<u>Fiscal Year</u>	<u>Terms in Extra-Strength Surcharge Formula</u>	
	<u>A</u>	<u>B</u>
2011/12	4,906	801
2012/13	5,053	825
2013/14	5,205	850
2014/15	5,361	876
2015/16	5,522	902
2016/17	5,687	929

## **DEBT AND FINANCIAL POLICIES AND INDEBTEDNESS**

### **General**

The City Council, by resolution adopted on November 10, 1998, established the Debt and Financial Policies for the Wastewater System to provide a general framework for the conduct of financial activities and has been in compliance with such policies since their adoption. Such debt and financial policies specify, among other things, that the City and County will target to maintain revenues (excluding Wastewater System Facility Charges) of 1.60 times senior revenue bond debt service and 1.25 times debt service for all revenue bonds, regardless of the priority of lien. It is expected that the City and County will adopt increases in the sewer service charges necessary to meet the debt service coverage requirements prescribed in its debt and financial policies. The debt and financial policies do not constitute an agreement with holders of Bonds, and the City and County has not undertaken any obligation to such holders or any other person to comply with such policies or to meet such targets. Since establishment of these policies in November 1998, the Wastewater Enterprise has consistently met or exceeded all policy requirements.

### **Investments**

The City and County manages its own investment portfolio in accordance with state law and a written investment policy of the City and County. The City and County does not engage in pooled investments, speculate with investments or leverage its investments. The City and County's investment portfolio does not include any derivative or auction rate securities. The City and County's philosophy and policy in managing its investments is: first, for safety of public funds; second, for liquidity, so that funds are available when needed; and third, for yield, after the first two considerations are met. All Sewer Fund investments, except for a single investment agreement holding the common reserve subaccount for the Senior Series 2006 Bonds issued under the First Bond Resolution, are managed as part of the City and County investment pool.

### **Indebtedness**

Table 32 sets forth the Senior Bonds and Junior Bonds of the City and County secured by the Net Revenues under the First Bond Resolution and the Second Bond Resolution; Table 33 sets forth the debt service requirements for such Senior Bonds and Junior Bonds.

**Table 21**

**Outstanding Wastewater Revenue Bonds**

<b><u>Senior Bonds</u></b>	<b><u>Original Issue Amount</u></b>	<b><u>Amount Outstanding as of April 2, 2015</u></b>
Senior Series 2005 Bonds	\$152,815,000	\$ 62,165,000
Senior Series 2006 Bonds	340,760,000	252,220,000
Senior Series 2007 Bonds	171,890,000	160,920,000
Senior Series 2009 Bonds	148,285,000	137,745,000
Senior Series 2010 Bonds	204,435,000	204,435,000
Senior Series 2011 Bonds	169,190,000	169,190,000
Senior Series 2012 Bonds	265,610,000	<u>264,650,000</u>
		\$1,251,325,000
<b><u>Junior Bonds</u></b>		
Junior Series 1998 Bonds	\$264,152,890	\$ 12,958,270
Junior Series 2003 Bonds	218,400,000	71,545,000
Junior Series 2008 Bonds	112,440,000	94,500,000
Junior Series 2009 Bonds	127,045,000	98,975,000
Junior Series 2010 Bonds	100,755,000	<u>100,755,000</u>
		\$378,733,270

In addition to the outstanding Senior Bonds and Junior Bonds shown above, \$252,718,399 principal amount of State Revolving Fund loans (classified as Subordinate Obligations under the Bond Resolution), \$803,115 of Reimbursable Obligations, and \$2,592,000 principal amount of USDA revenue bonds were outstanding as of April 2, 2015. All of the outstanding Senior Bonds, Junior Bonds, State Revolving Fund loans, Reimbursable Obligations and USDA revenue bonds are fixed rate obligations, and the City and County has not entered into any interest rate swap agreements or other derivative product arrangements with respect to any of these obligations.

**Table 22**

**Revenue Bond Debt Service Requirements as of April 2, 2005  
(Years Ending June 30) <sup>1</sup>**

Series 2015 Bonds										
Fiscal Year	Principal	Interest	Total	Debt Service on Outstanding Senior Bonds	Total Senior Debt Service	Debt Service on Outstanding Junior Bonds	Other Debt Service <sup>2</sup>	Total Debt Service	BABS/RZEDB Subsidy <sup>3</sup>	Total Net Debt Service
2015				\$ 77,084,780	\$ 77,084,780	\$ 35,925,475	\$ 18,279,003	\$ 131,289,258	\$ (5,367,122)	\$ 125,922,136
2016				81,703,765	81,703,765	35,925,494	18,138,619	135,767,877	(5,367,122)	130,400,755
2017				85,159,583	85,159,583	35,922,656	18,071,590	139,153,829	(5,367,122)	133,786,707
2018				85,169,702	85,169,702	35,926,025	17,675,524	138,771,251	(5,367,122)	133,404,129
2019				85,201,210	85,201,210	35,935,969	16,533,189	137,670,368	(5,367,122)	132,303,246
2020				85,193,548	85,193,548	35,934,119	14,907,229	136,034,896	(5,367,122)	130,667,775
2021				85,193,121	85,193,121	35,936,156	14,459,636	135,588,913	(5,325,087)	130,263,826
2022				85,090,487	85,090,487	35,925,278	14,241,113	135,256,878	(5,237,136)	130,019,743
2023				84,989,804	84,989,804	35,927,150	13,445,038	134,361,992	(5,141,046)	129,220,947
2024				84,888,720	84,888,720	35,934,675	13,412,977	134,236,372	(5,035,813)	129,200,559
2025				84,760,113	84,760,113	36,363,325	13,380,751	134,504,190	(4,921,003)	129,583,187
2026				84,638,578	84,638,578	36,366,525	13,348,262	134,353,365	(4,797,027)	129,556,338
2027				84,455,492	84,455,492	36,367,350	10,783,441	131,606,283	(4,617,849)	126,988,433
2028				84,220,637	84,220,637	36,367,925	3,560,330	124,148,892	(4,383,345)	119,765,547
2029				83,967,149	83,967,149	36,362,563	935,440	121,265,152	(4,139,489)	117,125,662
2030				80,300,346	80,300,346	13,939,125	147,320	94,386,792	(3,885,964)	90,500,828
2031				80,033,008	80,033,008	13,934,000	147,259	94,114,268	(3,620,578)	90,493,690
2032				79,755,435	79,755,435	13,938,125	147,196	93,840,756	(3,340,857)	90,499,899
2033				70,277,695	70,277,695	13,934,875	147,130	84,359,699	(3,047,941)	81,311,759
2034				69,979,090	69,979,090	--	147,061	70,126,151	(2,743,089)	67,383,062
2035				69,657,614	69,657,614	--	146,989	69,804,602	(2,425,759)	67,378,844
2036				69,296,687	69,296,687	--	146,915	69,443,602	(2,078,551)	67,365,051
2037				58,483,451	58,483,451	--	146,838	58,630,289	(1,700,446)	56,929,842
2038				43,083,525	43,083,525	--	146,757	43,230,282	(1,307,606)	41,922,677
2039				31,240,678	31,240,678	--	146,674	31,387,351	(899,812)	30,487,539
2040				30,814,587	30,814,587	--	146,587	30,961,174	(476,478)	30,484,696
2041				24,023,616	24,023,616	--	--	24,023,616	(130,416)	23,893,200
2042				11,474,875	11,474,875	--	--	11,474,875	(130,416)	11,344,459
Total				\$1,980,137,296	\$1,980,137,296	\$564,536,810	\$202,788,868	\$2,779,792,973	\$(101,588,440)	\$2,678,204,536

<sup>1</sup> Based on payments, not on accruals. Totals may not add in some columns due to rounding.

<sup>2</sup> Includes \$373,201,487 principal amount of State Revolving Fund loans, \$2,592,000 principal amount of USDA revenue bonds, and \$803,115 principal amount of Reimbursable General Obligation Bonds.

<sup>3</sup> Includes BAB/RZEDB subsidies relating to certain of the 2009 and 2010 Senior Bonds. The subsidies will be deposited into the Rate Stabilization Account upon receipt and subsequently transferred to the Sewer Fund. Under the provisions of the Bond Resolution, subsidies transferred from the Rate Stabilization Account to the Sewer Fund within 90 days after the end of a fiscal year will be treated as Revenues in the year of the transfer. See "SECURITY FOR THE BONDS – Proposed Amendments to the Bond Resolution" for certain proposed amendments to such provisions. The subsidy has been and may be subject to limitation through Federal sequestration.

## FINANCIAL STATEMENTS

The operations of the Department are accounted for in the Sewer Fund and the Wastewater System Facility Charge Account. The Sewer Fund is classified as an enterprise fund of the City and County and is currently audited as a part of the City and County's general purpose financial statements that are prepared annually.

Extracts from the financial statements of the City and County as of June 30, 2014, relating to the Sewer Fund, together with the auditor's report thereon delivered by KMH LLP, may be found at the Website of the City and County at <http://www.honolulu.gov/budget/cafr.htm>, or may be obtained from the Department by request to the attention of the Director of Budget and Fiscal Services, City and County of Honolulu, 530 South King Street, Honolulu, Hawaii 96813. Except for such financial statements and auditor's report, the contents of the City and County's website are not part of this Official Statement and are not incorporated herein by the above reference. Accuity LLP has not reviewed and has no responsibility with respect to this Official Statement.

The following tables have been extracted from audited financial statements of the City and County relating to the Department. It should be noted that "Revenues" as defined in the Bond Resolution does not include Wastewater System Facility Charges.

Table 23 summarizes revenues and expenses and Table 24 provides fund balances, both reflecting enterprise accounting and consistency with GASB 34 reporting requirements.

**Table 23**

**Department of Environmental Services  
Sewer Fund  
Enterprise Fund Statement of Revenues, Expenses and Charges in Retained Earnings (Deficit)  
(Dollars in Thousands)<sup>1</sup>**

	<u>2012</u>	<u>2013</u> <u>(as Restated)</u>	<u>2014</u>
Operating Revenues:			
Sewer Service Charges	\$357,159	\$368,125	\$384,096
Other Revenue	<u>5,427</u>	<u>4,269</u>	<u>6,255</u>
Total Operating Revenues	\$362,586	\$372,394	\$390,351
Operating Expenses:			
Administrative and general	\$ 54,549	\$ 75,622	\$ 68,387
Maintenance	438	438	533
Depreciation	49,665	58,262	55,991
Contractual services	14,927	21,398	21,137
Fringe benefits	19,947	20,845	24,206
Materials and supplies	12,196	10,927	10,876
Fuel and lubricants	1,555	1,331	1,768
Utilities	<u>26,464</u>	<u>27,436</u>	<u>28,710</u>
Total Operating Expenses	\$179,741	\$216,259	\$211,608
Operating Income	\$182,845	\$156,135	\$178,743
Nonoperating Revenues (Expenses):			
Interest income	\$ 1,041	\$ 1,378	\$ 1,323
Interest expense	(57,011)	(59,844)	(65,162)
Forgiveness of advance	8,626	--	--
Other	<u>6,066</u>	<u>4,063</u>	<u>4,794</u>
Total Nonoperating Expenses	\$(41,278)	\$(54,403)	\$(59,045)
Income before operating transfers and contributed capital	\$141,567	\$101,732	\$119,698
Operating Transfers Out	(9,184)	(12,885)	(9,915)
Contributed Capital	<u>42,867</u>	<u>1,244</u>	<u>506</u>
Change in Net Assets	\$175,250	\$ 90,091	\$110,289
Net Assets at Beginning of Year <sup>2</sup>	<u>\$1,038,538</u>	<u>\$1,201,244</u>	<u>\$1,291,335</u>
Net Assets at End of Year	\$1,213,788	\$1,291,335	\$1,401,624

<sup>1</sup> Differs from presentation in Table 10 due to the fact that information presented in this Table 34 is presented in conformance with GAAP whereas information in Table 10 is presented in accordance with definitions presented in the First Bond Resolution.

<sup>2</sup> 2013 differs from 2012 due to audit restatement. See audit document for details.

**Table 24**  
**Department of Environmental Services - Sewer Fund**  
**Enterprise Fund Balance Sheet\***  
(Dollars in Thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 715,473	\$ 438,953	\$ 446,343
Investments	90,181	141,247	222,289
Receivables			
Accounts	46,890	59,170	52,690
Interest	102	279	191
Employee advances	1,136	1,066	1,012
Due from other funds	1,009	521	337
Inventories of parts, materials and supplies at cost	10,830	12,880	13,848
Prepaid expenses	<u>2,215</u>	<u>2,326</u>	<u>2,438</u>
Total Current Assets	\$ 867,836	\$ 656,442	\$ 739,148
Fixed Assets:			
Land	41,214	42,099	42,284
Land improvements	3,511	3,511	3,511
Buildings and Improvements	913,115	1,055,542	1,070,966
Transmission and distribution system	1,490,293	1,494,068	1,528,690
Equipment and machinery	44,354	57,916	61,053
Construction work in progress	279,187	252,758	353,221
Accumulated depreciation	<u>(455,506)</u>	<u>(512,554)</u>	<u>(567,624)</u>
Total Assets	\$2,316,168	\$2,393,340	\$2,492,101
Deferred charges	10,394	--	--
Restricted Assets - Investments	--	351,253	256,627
Other Assets	<u>--</u>	<u>1,622</u>	<u>1,462</u>
Total Assets	\$3,194,398	\$3,402,657	\$3,489,338
Deferred Outflows of Resources – Net Refunding Costs	<u>--</u>	<u>24,446</u>	<u>22,904</u>
Total Assets and Deferred Outflows	<u>\$3,194,398</u>	<u>\$3,427,103</u>	<u>\$3,512,242</u>
<b>LIABILITIES AND FUND EQUITY (DEFICIENCY)</b>			
Current Liabilities:			
Accounts payable	\$ 33,197	\$ 50,483	\$ 38,298
Due to other funds	103	1,123	6,024
Interest payable-current	38,359	33,271	31,140
Notes payable-current	18,623	19,044	18,969
Bonds payable-current	34,389	35,947	39,440
Accrued Payroll	1,572	1,483	1,593
Other current liabilities	<u>368</u>	<u>688</u>	<u>1,385</u>
Total Current Liabilities	\$ 126,611	\$ 142,039	\$ 136,849
Notes payable	203,886	202,087	226,376
General obligation bonds payable	748	893	874
Revenue bonds payable	1,625,180	1,764,136	1,717,990
Deferred credits and other liabilities	<u>24,185</u>	<u>26,613</u>	<u>28,529</u>
Total Liabilities	\$1,980,610	\$2,135,768	\$2,110,618
Net Assets:			
Invested in capital assets	645,433	638,760	659,812
Reserved for debt service	171,010	177,890	178,187
Unrestricted	<u>397,345</u>	<u>474,685</u>	<u>563,625</u>
Total net assets	<u>\$1,213,788</u>	<u>\$1,291,335</u>	<u>\$1,401,624</u>
Total liabilities and net assets	<u>\$3,194,398</u>	<u>\$3,427,103</u>	<u>\$3,512,242</u>

\* Totals may not add due to rounding.



The Bond Resolution requires the Department to maintain and keep proper books of account relating to the Wastewater System and in accordance with generally accepted accounting principles. The Bond Resolution also requires that within one hundred eighty (180) days after the end of each Fiscal Year the Department will cause such books of account to be audited by an independent certified public accountant. Such audit may be part of a comprehensive audit of the City and County if the Wastewater System in such audit is treated as an "enterprise fund" and the revenues and expenses of the Wastewater System are stated in a manner which permits identification by category of the sources and uses of the Revenues.

### **Employee Benefits**

Substantially all employees of the Department participate in the City and County's various employee benefit plans, including health care benefits, pension benefits and other post-employment benefits ("OPEB") for which Department employees are eligible. The City and County allocates a portion of the City and County's Annual Required Contribution ("ARC") to proprietary funds reported separately in stand-alone financial statements.

For the fiscal years ended June 30, 2013 and June 30, 2014, the Department contributed \$5.7 million and \$6.1 million, respectively, to the Employees Retirement System, and had accrued pension liabilities of \$1.1 million and \$1.2 million at the end of such fiscal years. For fiscal years 2015 and 2016 the City and County has budgeted \$6.75 million and \$6.95 million, respectively, as the Department's share of the City and County's \$122.34 million and \$135.7 million, respectively, contribution to the Employees' Retirement System for these years.

For the fiscal years 2013 and 2014, the Department contributed \$7.65 million and \$7.94 million, respectively or 6.7% of the City and County's ARC for OPEB. For fiscal years 2015 and 2016 the City and County has budgeted \$7.68 million and \$7.58 million, respectively, as the Department's share of the City and County's \$116.1 million and \$112.2 million, respectively, ARC for OPEB.

### **State Employees' Retirement System**

All regular employees of the City and County are covered under the Employees' Retirement System of the State (referred to as the "State Retirement System" or the "System"), a cost sharing, multiple employer defined benefit pension plan that provides retirement, disability and death benefits funded by employee contributions and by employer contributions. This section contains certain information relating to the System. The information contained in this section is primarily derived from information produced by the System, its independent accountant and its actuary. The City and County has not independently verified the information provided by the System, its independent accountant and its actuary, and makes no representations nor expresses any opinion as to the accuracy of such information. The comprehensive annual financial report of the System and most recent valuation report of the System may be obtained by contacting the System. The comprehensive annual financial reports of the System are also available on the State's website at <http://portal.hawaii.gov/>, and other information about the System are available on the System's website at <http://ers.hawaii.gov/>. Such documents and other information are not incorporated herein by reference.

The System uses a variety of assumptions to calculate the actuarial accrued liability, actuarial value of assets and other actuarial calculations and valuations of the System. No assurance can be given that any of the assumptions underlying such calculations and valuations (including, but not limited to, the current actuarial assumptions adopted by the System's Board of Trustees, the System's benefit structure or the actuarial method used by the System) will reflect the actual results experienced by the System. Variances between the assumptions and actual results may cause an increase or decrease in, among other things, the System's actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability or funded ratio. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions (including, but not limited to, the current actuarial assumptions, benefit structure or actuarial method used by the System), one or more of which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans. See "*General Information*" and "*Actuarial Valuation*" below for more information on the actuarial assumptions used by the System.

Much of the disclosure set forth in this "State Employees' Retirement System" section is based on the Report to the Board of Trustees on the 89th Annual Actuarial Valuation for the Year Ended June 30, 2014 (the "2014 Valuation Report"), which is the most recent valuation report of the System. The information presented in the 2014 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in

January 2011. As described more fully under “—*General Information*” below, a revised benefit structure for new members was enacted through statute. In addition, future employer contribution rates were enacted through statute. This valuation is the first with new members under the new tier of benefits and member contribution rates. However, the liability for this group of employees represents just a small fraction of the total liabilities of the system. Included in the 2014 Valuation Report are projections showing the long-term impact of both the increased employer contributions and the change in benefits for employees first hired after June 30, 2012.

June 2012, the Governmental Accounting Standards Board (“GASB”) voted to approve two new statements relating to the accounting and financial reporting for public employee pension plans by state and local governments. Statement No. 67, Financial Reporting for Pension Plans (“GASB 67”), is effective for reporting periods beginning after June 15, 2013. GASB 67 requires enhanced pension disclosures in notes and required supplementary information for financial reports of pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions (“GASB 68”), is effective for fiscal years beginning after June 15, 2014. GASB 68 will require governments providing defined benefit pension plans to recognize pension obligations as balance sheet liabilities (as opposed to footnote disclosures), require more immediate recognition of certain changes in liabilities, require use of the entry age normal actuarial cost method (currently employed by the State Retirement System) for reporting purposes, and limit the smoothing of differences between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required for valuing pension liabilities. In addition, employers participating in cost-sharing, multiple employer defined benefit plans will be required to report their proportionate shares of the collective net pension liability and expense for such plans.

The full impact of GASB 67 and GASB 68 cannot be predicted at this time. At this time, ERS does not expect that the net pension liability reported under GASB 67 will be a significantly different amount than the unfunded actuarial accrued liability (UAAL) that would have been reported under the prior accounting standards. The State expects to implement GASB 68 beginning with the fiscal year ending June 30, 2015. It is anticipated that future financial statements may result in substantial increases in the reported unfunded pension liabilities of most governmental defined benefit pension plans and State governments. At this time it is not expected to result in a substantial increase in reported unfunded pension liabilities for the City and County.

Reference is made to “—*Recent Developments*” below for a discussion of recent Hawaii legislation to reduce the unfunded actuarial accrued liability of the State Retirement System by limiting the impact of the practice (known as “spiking”) of inflating employees’ average final compensation in order to increase pension benefits.

#### *General Information*

The System began operation on January 1, 1926. The actuarial information presented below is provided for all employers of the System in total. The System’s plan year runs from July 1 of each year through the following June 30. The System covers all regular employees of the State and each of its counties, including judges and elected officials. As it is a cost-sharing plan, the System does not allocate its liabilities among participating employers. However, the State estimates that its share of the System, based on a percentage of payroll, is approximately 75% with the remaining 25% share as the responsibility of the four counties.

The City and County’s contribution to the System for the five previous Fiscal Years and the contribution budgeted for Fiscal Year 2015, exclusive of costs for employees of the Board of Water Supply, including amortization of a portion of prior service costs in each such year, are set forth below:

<u>Fiscal Year (June 30)</u>	<u>City and County Contribution</u>
2010	\$ 96,700,000
2011	90,100,000
2012	81,700,000
2013	87,800,000
2014	88,000,000
2015 (budgeted)	122,341,000

The statutory provisions of HRS Chapter 88 govern the operation of the System. Responsibility for the general administration of the System is vested in a Board of Trustees, with certain areas of administrative control being vested in the Department of Budget and Finance. The Board of Trustees consists of eight members: the Director of Finance of the State, ex officio; four members of the System (two general employees, one teacher, and one retiree) who are elected by the members and retirees of the System; and three citizens of the State (one of whom shall be an officer of a bank authorized to do business in the State, or a person of similar experience) who are appointed by the Governor and may not be employees of the State or any county. All contributions, benefits and eligibility requirements are established by statute, under HRS Chapter 88, and may only be amended by legislative action.

Prior to 1984, the System consisted of only a contributory plan. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan provides for reduced benefits and covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan. The minimum service required for retirement eligibility is five years of credited service under the contributory plan and ten years of credited service under the noncontributory plan. Both the contributory and noncontributory plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (the "AFC"). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971 or the three highest paid years of service, excluding the vacation payment (whichever is higher). The AFC for members hired after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new defined benefit contributory plan (the "Hybrid Plan") was established pursuant to Act 179, SLH 2004. Members in the Hybrid Plan are eligible for retirement with full benefits at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the Hybrid Plan. Most new employees hired from July 1, 2006 were required to join the Hybrid Plan.

In December 2010, the System's actuary completed an Actuarial Experience Study for the five-year period ended June 30, 2010 (the "2010 Experience Study"). In fiscal year 2011, based in part on the results of the Experience Study, the Legislature acted to limit the growth of the State's pension liabilities by passing Act 163, SLH 2011. This Act, effective July 1, 2012, enacts certain changes to the funding of the System and the benefit structure for new members in all plans. Funding changes include increasing the statutorily required employer contribution rates (see "—Funding Status" below). Benefit changes for new members include increasing the age and service requirements for retirement eligibility, reducing the retirement benefit multiplier and reducing the interest rate credited to employee contributions to 2%. The change in the interest rate credited to employee contributions to 2% is for new members in the Hybrid Plan and Contributory Plan hired on or after July 1, 2011. All other benefit changes are effective for new members hired on or after July 1, 2012. Act 163, SLH 2011, also reduced the investment yield rate assumption for fiscal year 2011 from 8% to 7.75% and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the System, the Board of Trustees adopted the assumption recommendations set forth in the 2010 Experience Study, including continuing the investment yield rate assumption of 7.75%. During its September 23, 2014 meeting, the Board of Trustees reviewed actuarial scenarios based on the System's short and long-term investment return risk and approved a three year plan for the phased-in reduction of the investment yield rate from 7.75% to 7.50% beginning with the June 30, 2015 valuation of the System, as follows: 7.65% for the June 30, 2015 valuation, 7.55% for the June 30, 2016 valuation and 7.50% for the June 30, 2017 valuation, respectively. The Legislature also enacted Act 152 and 153, SLH 2012, effective June 30, 2012 and July 1, 2012, respectively, to define compensation for retirement purposes as normal periodic payments excluding overtime, supplemental payments, bonuses and other differentials, and to assess employers annually for all retiree pension costs attributable to non-base pay during the last years of retirement.

In fiscal year 2011, the Legislature acted to improve and protect the System's funded status by placing a moratorium on the enhancement of benefits. Act 29, SLH 2011, provides that there shall be no benefit enhancement for any group of members until the actuarial value of the System's assets is 100 percent of the System's actuarial accrued liability.

As of June 30, 2014, the contributory plan covered 5,006 active police officers and firefighters employees or 7.4% of the active members of the System, and 1,275 other active employees or 1.9% of all active members for a total of 6,281 active members. The noncontributory plan covered 17,061 active employees or 25.4% of all active members. The Hybrid Plan covered 43,864 active members or 65.3% of all active members. The Hybrid Plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join this plan.

As of June 30, 2014, the System's membership comprised approximately 67,206 active employees, 8,105 inactive vested members and 43,087 pensioners and beneficiaries. The following table shows the number of active members, inactive members and retirees and beneficiaries of the System as of June 30, 2013 and as of June 30, 2014:

**Table 25**

**STATE RETIREMENT SYSTEM MEMBERSHIP**

<u>Category</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Active	66,226	67,206
Inactive	7,312	8,105
Retirees and beneficiaries	41,812	43,087
<b>Total</b>	<b>115,350</b>	<b>118,398</b>

*Funded Status*

Based on the actuarial valuation as of June 30, 2014, the System's underfunded status has increased, compared to the prior year. The increase was anticipated due to the deferral of investment losses from prior valuations and the future increases in contributions not being effective for that fiscal year. The unfunded actuarial accrued liability (the "UAAL") as of June 30, 2014 was \$8.578 billion. The State estimates that the share of the UAAL to be funded by the four counties is 26% of the UAAL. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the amortization of the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 25.0% for police and fire employees and 17% for all other employees, the future contribution rates established in statute (see "—Funding Policy" below), and the new benefit tier for employees hired after June 30, 2012, the actuary has determined that the remaining amortization period is 26 years. Because this period is within 30 years (the maximum period specified by HRS Section 88-122(e)(1)), the financing objectives of the System are currently being realized. HRS Section 88-122(e)(1) provides that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. See "—Funding Policy" below for information on increases in the employer contribution rates and benefits changes.

*Funding Policy*

Prior to fiscal year 2006, the System was funded on an actuarial reserve basis. Actuarial valuations were prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In earlier years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the System. Act 327, SLH 1997, amended HRS Section 88-107, so that, beginning with the June 30, 1997 valuation, the System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, SLH 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. For those two valuations, the investment earnings in excess of a 10% actuarial return was to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (HRS Section 88-122, as amended by Act 147, SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund was comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement was determined in the aggregate for all employers in the System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation was paid during the third fiscal year following the valuation date, e.g., the contribution requirement derived from the June 30, 1998 valuation was paid into the System during the fiscal year ended June 30, 2001. The actuarial cost method used to calculate

employer contributions was changed in 1997 by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions were determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the System.

Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation (15.75% for their police officers and firefighters and 13.75% for other employees) effective July 1, 2005. Pursuant to Act 256, SLH 2007, employer contributions beginning July 1, 2008 increased to 19.70% for police officers and firefighters and 15.00% for all others employees. As of June 30, 2010, the System's actuary determined that the remaining period required to amortize the UAAL was 41.3 years, which was greater than the maximum of 30 years specified by HRS Section 88-122(e)(1). As a result, and pursuant to the recommendations of the 2010 Experience Study, the Board of Trustees requested an increase in the statutory employer contribution rates to bring the funding period down to 30 years. In response, the Legislature enacted Act 163, SLH 2011, pursuant to which, effective July 1, 2012, employer contribution requirements will gradually increase as follows:

**Table 26**

**STATE RETIREMENT SYSTEM EMPLOYER CONTRIBUTION REQUIREMENTS**

<b>Employer Contribution effective starting</b>	<b>Police Officers and Firefighters (% of total payroll)</b>	<b>Other Employees (% of total payroll)</b>
July 1, 2012	22.0	15.5
July 1, 2013	23.0	16.0
July 1, 2014	24.0	16.5
July 1, 2015	25.0	17.0

Under the contributory plan, police officers, firefighters, and corrections officers are required to contribute 12.2% of their salary to the plan and most other covered employees are required to contribute 7.8% of their salary. Under the Hybrid Plan, covered employees are generally required to contribute 6.0% of their salary to the plan, with sewer workers in specified classifications, water safety officers and emergency medical technicians required to contribute 9.75% of their salary. Effective July 1, 2012, contribution rates for newly hired employees covered under the contributory and Hybrid Plan increased by 2% pursuant to Act 163, SLH 2011, such that the corresponding contribution rates for new employees as discussed in this paragraph will be 14.2%, 9.8%, 8.0% and 11.75%, respectively. Employees covered under the noncontributory plan do not make contributions.

*Actuarial Methods*

The System's actuary uses the entry age normal cost method. The most recent valuation was performed for the year ended June 30, 2014.

Since the State statutes governing the System establish the current employee and employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL. For the June 30, 2014 valuation, this determination was made using an open group projection to reflect both the increasing contribution rates and the changes in benefits for members hired after June 30, 2012.

Because of this amortization procedure, any change in the unfunded actuarial accrued liability due to (i) actuarial gains and losses, (ii) changes in actuarial assumptions or (iii) amendments, affects the funding period.

On an aggregate basis with regards to the contributory, the Hybrid, and the noncontributory plans, the total normal cost for benefits provided by the System for the fiscal year beginning July 1, 2013 was 11.02% of payroll, which was 11.00% of payroll less than the total contributions required by law (16.76% from employers plus 5.26% in the aggregate from employees). Since only 5.76% of the employers' 16.76% contribution is required to meet the normal cost (5.26% comes from the employee contribution), it is intended that the remaining 11.00% of payroll will be used to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that total payroll increases by 3.50% per year. Due to the changes enacted in 2011 (increases in the employer contribution rates and new benefits and contribution rates for members hired after June 30, 2012), the percentage of payroll available to amortize the unfunded actuarial liabilities is expected to increase each year for the foreseeable future.

### *Actuarial Valuation*

The actuarial value of assets is equal to the market value, adjusted for a four year phase-in of actual investment return in excess of or below expected investment return. The actual return is calculated net of investment and administrative expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds. The actuarial value of assets has been based on a four-year smoothed valuation that recognizes the excess or shortfall of investment income over or under the actuarial investment yield rate assumption. The actuarial asset valuation method is intended to smooth out year-to-year fluctuations in the market return. The excess or shortfall in the actual return during the year, compared to the investment yield rate assumption, is spread over this valuation and the next three valuations.

The System's actuary uses certain assumptions (including rates of salary increase, probabilities of retirement, termination, death and disability, and an investment yield rate assumption) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the System to pay benefits when due. Prior to fiscal year 2012, HRS Section 88 122(b) provided for the Board of Trustees to adopt the assumptions to be used by the System except the investment yield rate, which was set by the Legislature. Act 163, SLH 2011, set the investment yield rate at 7.75% for fiscal year 2011 but also amended HRS Section 88 122(b) to allow the Board of Trustees to establish, for subsequent fiscal years, all assumptions to be used by the System, including the investment yield rate assumption. The Board of Trustees periodically evaluates and revises the assumptions used by the System for actuarial valuations, including by commissioning experience studies to evaluate the actuarial assumptions to be used by the System. The current assumptions, including the 7.75% investment yield rate, were adopted by the System's Board of Trustees based on the recommendations of the System's actuary in the most recent experience study, the 2010 Experience Study. These assumptions, funding changes and benefit structure are reflected in the 2014 Valuation Report. The impact of the phased-in reduction of the investment yield rate from 7.75% to 7.50%, which was also based on current actuarial assumptions, cannot be determined at this time, but will be reflected beginning with the June 30, 2015 Valuation Report, as follows: 7.65% for the June 30, 2015 valuation, 7.55% for the June 30, 2016 valuation and 7.50% for the June 30, 2017 valuation, respectively. Also, a new experience study for the System will be conducted in 2015.

The State anticipates that as the percentage of employees hired after July 1, 2012, increases and the new funding policies impact the System, the State will be able to fully amortize the UAAL over a 26 year period. Assuming a constant employment base, the number of employees entitled to pre-2012 retirement benefits should equal the number of employees entitled to post-2012 retirement benefits in fiscal year 2021. The combination of the higher contribution policies and new benefit structure for future employees will enable the Retirement System to absorb the prior adverse experience over the 26 year term.

The following table sets forth the schedule of funding progress of the System for the ten most recent actuarial valuation dates.

**Table 27**

**SCHEDULE OF FUNDING PROGRESS**  
(Dollar amounts in millions)

<b>June 30,</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (b)-(a)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Payroll (c)</b>	<b>UAAL as a Percentage of Payroll ((b)-(a))/(c)</b>
2005	8,914.8	12,986.0	4,071.1	68.6%	3,041.1	133.9%
2006*	9,529.4	14,661.4	5,132.0	65.0%	3,238.3	158.5%
2007	10,589.8	15,696.5	5,106.8	67.5%	3,507.0	145.6%
2008	11,381.0	16,549.1	5,168.1	68.8%	3,782.1	136.6%
2009	11,400.1	17,636.4	6,236.3	64.6%	4,030.1	154.7%
2010	11,345.6	18,483.7	7,138.1	61.4%	3,895.7	183.2%
2011**	11,942.8	20,096.9	8,154.2	59.4%	3,916.0	208.2%
2012	12,242.5	20,683.4	8,440.9	59.2%	3,890.0	217.0%
2013	12,748.8	21,243.7	8,494.9	60.0%	3,906.7	217.4%
2014	13,641.8	22,220.1	8,578.3	61.4%	3,991.6	214.9%

Source: The 2014 Valuation Report.

\*Assumption changes and new Hybrid Plan effective June 30, 2006.  
a parity with the Senior Series 2015 Bonds, as described hereinThe total assets of the System on a market value

The total assets of the System on a market value basis amounted to \$12.4 billion as of June 30, 2013 and \$14.2 billion as of June 30, 2014. Actuarial certification of assets as of June 30, 2013 was \$12.2 billion. Actuarial certification of assets as of June 30, 2013 and June 30, 2014 was \$12.7 billion and \$13,641.8 billion, respectively. The System's unfunded actuarial accrued liability as of June 30, 2014 was \$8,578.3 billion. Since the System is a cost sharing, multiple employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties. The following table shows the normal cost as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for fiscal years 2013 and 2014:

**Table 28**

**NORMAL COST**

	<b>June 30</b>			<b>June 30,</b>		
	<b>2013</b>			<b>2014</b>		
	<b>Police and Firefighters</b>	<b>Other Employees</b>	<b>All Employees</b>	<b>Police and Firefighters</b>	<b>Other Employees</b>	<b>All Employees</b>
Normal cost as % of payroll	19.84%	9.91%	11.02%	19.47%	9.92%	10.96%
Employee contribution rate	12.24%	4.38%	5.26%	12.30%	4.58%	5.42%
Effective employer normal cost rate	7.60%	.53%	5.76%	7.17%	5.34%	5.54%

Source: The 2014 Valuation Report.

The following table shows a comparison of the actuarial value of assets ("AVA") to the market values, the ratio of the AVA to market value and the funded ratio based on AVA compared to funded ratio based on market value of assets, for the last two valuation dates:

**Table 29****ASSET VALUES**

	<b>June 30, 2013</b>	<b>June 30, 2014</b>
AVA	\$12,748.8 million	\$13,641.8 million
Market Value of Assets	\$12,357.8 million	\$14,203.0 million
Market Value as Percentage of AVA	103.2%	96.0%
Funded Ratio (AVA)	60.0%	61.4%
Funded Ratio (Market Value)	58.2%	63.9%

Source: The 2014 Valuation Report.

The following table shows the annual required contributions, actual contributions and the percentage of actuarially required contribution that has been funded as of the last 10 valuation dates. Employer contribution rates are set prospectively by the statute and, accordingly, may be greater or less than the ARC in any given year.

**Table 30****SCHEDULE OF EMPLOYER CONTRIBUTIONS**

(Dollar amounts in thousands)

<b>June 30,</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution</b>	<b>Percentage Contributed</b>
2005	328,717	328,717	100.0%
2006*	423,446	423,446	100.0%
2007	476,754	454,494	95.3%
2008	510,727	488,770	95.7%
2009	526,538	578,635	109.9%
2010	536,237	547,613	102.1%
2011	582,535	534,858	91.8%
2012	654,755	548,353	83.7%
2013	667,142	581,447	87.2%
2014	705,224	653,128	92.6%

Source: The 2014 Valuation Report.

\* Effective July 1, 2005, the required contributions are based on contribution rates and not specific dollar amounts.

*Asset Allocation*

The following table shows the target and actual asset allocation of the System as of June 30, 2014:

**Table 31****ASSET ALLOCATION \***

<b>Asset Type</b>	<b>June 30, 2013</b>	<b>June 30, 2014</b>
Cash and Short-term Equivalents	3.0%	2.9%
Fixed Income Securities	20.8%	18.4%
Equity Securities	61.5%	65.3%
Real Estate	9.8%	8.2%
Other	4.9%	5.2%
<b>Total:</b>	<b>100.0%</b>	<b>100.0%</b>



*\* The data shown in this table is taken from, and reflects the presentation used in, the 2014 Valuation Report. Prior presentations of System asset allocation data showed both target and actual allocations.*

As of June 30, 2014, the System reported an asset allocation of 36.2% domestic equity, 25.5% non-U.S. equity, 17.1% fixed income, 6.4% real estate, 5.7% covered calls, 4.3% real return, 4.0% private equity, and the balance in other assets. In August 2014, the Board of Trustees of the System approved a change in its asset allocation policy from the current asset-class policy to a new risk-based asset allocation framework within the categories of Broad Growth, Principal Protection, Real Estate and Real Return and Other. The new policy is effective as of October 1, 2014.

The following statistical information addresses the entire System, including both State and county employees. The System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

#### *Employer Contribution Rate*

The schedule which follows shows the total actuarially determined employer contribution rate for all employees based on the last five annual actuarial valuations.

**Table 32**

#### **EMPLOYER CONTRIBUTION RATES**

<b>Actuarial Valuation as of June 30</b>	<b>Total Calculated Employer Contribution Rate for All Employees (% of total payroll)*</b>	<b>Funding Period (Years)</b>
2010	15.49	41.3
2011	15.52	25.0
2012	16.11	30.0
2013	16.76	28.0
2014	17.28	26.0

\* Reflects Act 181, SLH 2004, which amended HRS Sections 88-105, 88-122, 88-123, 88-124, 88-125 & 88-126, and Act 163, SLH 2011.

The increase in fiscal year 2010 was from the recognition of the actuarial asset loss from the significant decline in the financial markets during fiscal year 2009. The decrease in the funding period in 2011 is a reflection of Act 163, SLH 2011, which was enacted to raise the employer contribution rates over the next several years and to provide for smaller benefits for employees hired after June 30, 2012, to bring the funding period in line with the 30-year statutory requirement. The increase in the funding period in 2012 reflects the final recognition of the investment losses from fiscal year 2009. It also reflects the significant changes due to Act 163 and the System's open group projection policy which assumes that the number of active members will remain constant and there will be no actuarial gains or losses on liabilities or investments. The decrease in the funding periods in 2013 and 2014 was due to liability gains from positive experience versus the actuarial assumptions and large investment gains, respectively.

#### **Summary of Actuarial Certification Statement**

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2013 and June 30, 2014 is set forth below:

**Table 33**

**EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII**  
**Summary of Actuarial Certification as of June 30, 2013 and June 30, 2014**  
**(Includes all counties)**

<b>ASSETS</b>	<b>2013</b>	<b>2014</b>
Total current assets .....	\$12,748,828,110	\$13,641,755,300
Present value of future employee contributions .....	1,679,827,365	1,800,553,136
Present value of future employer normal cost contributions .....	1,737,037,958	1,703,379,872
Unfunded actuarial accrued liability.....	8,494,916,267	8,578,342,247
Present value of future employer Early Incentive Retirement Program contribution .....	N/A	N/A
<b>TOTAL ASSETS .....</b>	<b><u>\$24,660,609,700</u></b>	<b><u>\$25,724,030,555</u></b>
<b>LIABILITIES</b>		
Present value of benefits to current pensioners and beneficiaries .....	\$11,182,535,047	\$11,672,987,746
Present value of future benefits to active employees and inactive members .....	<u>13,478,074,653</u>	<u>14,051,042,809</u>
<b>TOTAL LIABILITIES .....</b>	<b><u>\$24,660,609,700</u></b>	<b><u>\$25,724,030,555</u></b>

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2014, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately \$8.58 billion. The System's funded ratios — assets divided by the actuarial accrued liability — increased during fiscal year 2013 as shown below:

**Table 34****FUNDED RATIOS**

<b><u>June 30, 2013</u></b>	<b><u>June 30, 2014</u></b>
60.0%	61.4%

*Recent Developments*

In 2012, the Hawaii legislature passed, and the Governor signed into law, two bills seeking to reduce the overall UAAL of the State Retirement System by limiting the impact of spiking by public employees:

- Senate Bill 1269, signed into law as Act 152, Session Laws of Hawaii 2012, revises the method of computing Retirement System pension benefits for employees hired after July 1, 2015 by excluding from compensation (for pension calculation purposes) all non-base compensation components, such as overtime, supplemental payments, bonuses, lump sum salary supplements, allowances or differentials.
- House Bill 2487, signed into law as Act 153, Session Laws of Hawaii 2012, seeks to hold state or local governmental employers financially responsible for excessive overtime and related employee practices by increasing each governmental employer's annual contributions to the State Retirement System to include the actuarial present value of the "excess maximum retirement allowance resulting from significant non-base pay increases" relating to that employer's current and former employees.

The City and County does not believe that these Acts will have a material adverse effect on the City and County's finances or operations or materially impair its ability to pay debt service on the Bonds.

**Employee Health Benefits**

All regular employees of the City and County, including Department employees, are eligible for coverage under health plans provided through the State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "Trust Fund"), which was established in 2003 to design, provide and administer health and other benefit plans for State and county employees, retirees and their dependents. The Trust Fund is administered by a ten-member Board

of Trustees (the "Board") appointed by the Governor comprised of five union representatives and five management representatives. The Board is responsible for determining the nature and scope of health plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, ruling on eligibility and establishing management policies for the Trust Fund and overseeing Trust Fund activities. The Trust Fund currently provides medical, prescription drug, dental, vision, chiropractic and group life benefits. Benefits with respect to regular employees are funded by a combination of employer contributions set by collective bargaining agreement or by executive order (with respect to non-union employees) and employee contributions through payroll deductions. Benefits for retirees are funded by a statutory formula.

In recent years, public and private health plan providers nationwide and in Hawaii, including the Trust Fund, have experienced substantial increases in health care costs. In the case of the Trust Fund, the current fiscal situation faced by the State and county employers has made it extremely difficult for the employers to increase employer contributions for health benefits in order to maintain the historical employer-employee contribution ratio. In the past, the Board has attempted to mitigate health plan rate increases by modifying benefits, and employees have been required to bear a larger share of the increased rates. The City and County cannot predict what actions will be taken (including changes to future plan benefits or employer-employee contribution rates) to address the impact of rising health care costs on the Trust Fund or what financial effects such changes may have on the City and County.

The State has recently enacted measures to reduce significantly the State's actuarial accrued liability for unfunded OPEB liabilities. Act 88, SLH 2001, Relating to Public Employees Health Benefits (partially codified as HRS Chapter 87A), established the Trust Fund. The Trust Fund provides health and other benefit plans for public employees, retirees and their dependents. The employers participating in the Trust Fund include the State and City and County. Public employer contributions to the Trust Fund for the health and other benefit plans of public employees and their dependents are determined under HRS Chapter 89C, or by way of applicable public sector collective bargaining agreements. Except for reimbursement of medical insurance coverage under Medicare, public employer contributions to fund the health and other benefit plans of retirees are not to exceed certain monthly contribution levels specified in HRS Chapter 87A.

#### **Other Post Employment Benefits**

The Government Accounting Standards Board ("GASB") has issued Statements No. 43 ("GASB 43"), Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans (i.e., "OPEBs"), and No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB 43 was implemented by the Trust Fund for fiscal year ending June 30, 2007 and GASB 45 was implemented by the employers for fiscal year ending June 30, 2008. On July 9, 2012, Act 304, SLH 2012 was enacted to provide for the establishment of "a separate trust fund for the purpose of receiving employer contributions that will prefund other post-employment health and other benefit plan costs for retirees and their beneficiaries." Effective June 30, 2013, the Board approved the Plan and Trust Agreement for Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits ("OPEB Trust") establishing the irrevocable trust whose assets are legally protected from creditors and can only be used for the benefit of participants' other post-employment benefits. The OPEB Trust is set up as an agent multiple-employer plan. Funds are pooled together but employer contributions; related investment income, investment expenses and gains/losses; and distributions are recorded separately by employer.

OPEBs consist of certain health and life insurance benefits provided through the Trust Fund to retired State and county employees and their dependents, including retired City and County employees and their dependents. Employer contributions to the Trust Fund for these benefits are determined by the Trust Fund based on employees' hiring dates and years of service.

In July 2013, the State's independent actuarial consultant estimated the actuarial accrued liabilities and annual OPEB costs under GASB 45 for the State and the counties for the Fiscal Year ending June 30, 2015. These estimates were based on the actuarial valuation as of July 1, 2013 and were developed assuming full prefunding of obligations. The actuarial accrued liability for Trust Fund OPEBs for the City and County (a portion of which is attributable to the Department) was estimated to be approximately \$1.80 billion with full prefunding for such period. The corresponding annual required contribution was estimated to be approximately \$1.436 million for the Fiscal Year ending June 30, 2013 and \$147.4 million for the Fiscal Year ending June 30, 2014 with full prefunding. The annual required contribution was budgeted at \$147.1 million for Fiscal Year 2015, and \$152.5 million for Fiscal

Year 2016.

Transfers to the Trust Fund to prefund the City and County's OPEB obligations in part are determined on a year-by-year basis. On June 30, 2013, the City and County transferred \$38.5 million to the Trust Fund for this purpose. On June 30, 2014, the City and County transferred a \$41.5 million to the Trust Fund for this purpose. The City and County's operating budget includes an additional \$47.1 million payment to the Trust Fund in the Fiscal Year ending June 30, 2015.

The Trust Fund Report provides, based on stated actuarial assumptions, costs with prefunding of the ARC and a discount rate of 7%. The Trust Fund Report states that the State's AAL as of July 1, 2013 is \$8,529.5 million, and the corresponding ARC for the fiscal year ending June 30, 2015 would be \$717.7 million. The estimated Trust Fund pay as you go funding amount for fiscal year ending June 30, 2015 will be \$302.7 million. The Trust Fund Report is updated every two years.

In the past, the State funded its OPEB costs on a "pay as you go" basis; however, the State has begun the process of pre-funding OPEB with appropriations authorized by Act 134, SLH 2013, of \$100 million for fiscal year 2014 and \$117.4 million for fiscal year 2015. In addition, the State has commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Trust Fund Report. Act 268, SLH 2013, requires the Trust Fund to establish a separate trust fund for public employer contributions with separate accounts for each public employer (which was accomplished as described above) and requires the annual public employer contribution to be equal to the amount determined by an actuary commencing with the fiscal year 2018-2019. There is a schedule to phase in the annual required contribution as follows:

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>
2014-2015	20%
2015-2016	40%
2016-2017	60%
2017-2018	80%
2018-2019	100%

If the State public employer contributions into the fund are less than the amount of the annual required contribution commencing with the fiscal year 2018-2019, general excise tax revenues will be used to supplement State public employer contribution amounts. If the county public employer contributions into the fund are less than the amount of the annual required contribution commencing with the fiscal year 2018-2019, transient accommodations tax revenues will be used to supplement county public employer contribution amounts. This statute also requires the Director of Finance to report to the Legislature on an implementation plan to have both the EUTF and the ERS jointly sharing investment information and services for the benefit of the Trust Fund.

#### **PENDING WASTEWATER SYSTEM LITIGATION**

The City and County and the Department generally are self-insured with respect to general liability claims. In the Fiscal Years ended June 30, 2012, 2013, and 2014, the Department reached settlements of lawsuits and claims related to the Wastewater System and paid with general funds of \$71,624, \$37,046, and \$2,879, respectively. As of May 1, 2015, in Fiscal Year ending June 30, 2015, the Department reached settlements of lawsuits and claims related to the Wastewater System and paid with general funds of \$61,545.23. The City and County's Corporation Counsel is of the opinion that no pending litigation will be determined so as to result individually or in the aggregate in a final judgment against the Department which would constitute a material impairment of the Department's financial position. The Corporation Counsel also reports that no pending litigation affects the right of the City and County to levy taxes or to issue evidence of indebtedness.

Information relating to pending litigation can be found in Note 11.d. to the audited financial statements for the Sewer Fund for the fiscal year ended June 30, 2014.

#### **RATINGS**

Fitch, Inc. and Moody's Investors Service have assigned ratings of "AA" and "Aa2," respectively, to the Senior Series 2015 Bonds and "AA-" and "Aa3," respectively, to the Junior Series 2015 Bonds. Such ratings

reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same, at the following addresses: Fitch, Inc., One State Street Plaza, New York, New York 10004, and Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an effect on the market price of the Series 2015 Bonds.

## UNDERWRITING

The Series 2015 Bonds are being purchased for reoffering by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Piper Jaffray & Co., as Underwriters. The Underwriters have agreed to purchase the Senior Series 2015 Bonds at an aggregate purchase price of \$\_\_\_\_\_, being an amount equal to the principal amount of the Senior Series 2015 Bonds, plus a net original issue premium of \$\_\_\_\_\_, and less an underwriting discount of \$\_\_\_\_\_. The Underwriters have agreed to purchase the Junior Series 2015 Bonds at an aggregate purchase price of \$\_\_\_\_\_, being an amount equal to the principal amount of the Junior Series 2015 Bonds, plus a net original issue premium of \$\_\_\_\_\_, and less an underwriting discount of \$\_\_\_\_\_. The contracts of purchase with respect to the Series 2015 Bonds provide that the Underwriters will purchase all the Series 2015 Bonds if any are purchased. The initial public offering prices are set forth on the inside cover page of this Official Statement. The Underwriters may offer and sell the Series 2015 Bonds to certain dealers (including depositing the Series 2015 Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The public offering prices may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments; provided, however, that potential investors are advised that the offering of the Bonds is made only by means of the Official Statement. No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than as contained in the Official Statement.

Piper Jaffray & Co. ("Piper") and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Distribution Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper, including the Bonds. Under the Distribution Agreement, Piper will share with Pershing LLC a portion of the fee or commission paid to Piper.

## TAX MATTERS

### Senior Series 2015A Bonds, Senior Series 2015B Bonds, and Junior Series 2015A Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Senior Series 2015A Bonds, Senior Series 2015B Bonds, and Junior Series 2015A Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Code, and the Tax-Exempt Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in

adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Tax-Exempt Bonds is less than the amount to be paid at maturity of such Tax-Exempt Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Tax-Exempt Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Tax-Exempt Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Tax-Exempt Bonds is the first price at which a substantial amount of such maturity of the Tax-Exempt Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Tax-Exempt Bonds accrues daily over the term to maturity of such Tax-Exempt Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Tax-Exempt Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Tax-Exempt Bonds. Beneficial Owners of the Tax-Exempt Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Tax-Exempt Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Tax-Exempt Bonds in the original offering to the public at the first price at which a substantial amount of such Tax-Exempt Bonds is sold to the public.

Tax-Exempt Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of the bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to exclusion from gross income for federal income tax purposes of interest on obligations such as the Tax-Exempt Bonds. The City and County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Tax-Exempt Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Tax-Exempt Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax-Exempt Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Tax-Exempt Bonds may adversely affect the value of, or the tax status of interest on, the Tax-Exempt Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and that the Tax-Exempt Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Tax-Exempt Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax-Exempt Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Tax-Exempt Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds

should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Tax-Exempt Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City and County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City and County has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Tax-Exempt Bonds ends with the issuance of the Tax-Exempt Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City and County or the Beneficial Owners regarding the tax-exempt status of the Tax-Exempt Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and County and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City and County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Tax-Exempt Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Tax-Exempt Bonds, and may cause the City and County or the Beneficial Owners to incur significant expense.

#### **Senior Series 2015C Bonds and Junior Series 2015B Bonds**

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Senior Series 2015C Bonds and the Junior Series 2015B Bonds (collectively, the "Taxable Bonds") is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the opinion that the Taxable Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Taxable Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix E hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Taxable Bonds that acquire their Taxable Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Taxable Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Taxable Bonds pursuant to this offering for the issue price that is applicable to such Taxable Bonds (i.e., the price at which a substantial amount of the Taxable Bonds are sold to the public) and who will hold their Taxable Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Taxable Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District

of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Taxable Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Taxable Bonds in light of their particular circumstances.

## **U.S. Holders**

**Interest.** Interest on the Taxable Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the Taxable Bonds is less than the amount to be paid at maturity of such Taxable Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Taxable Bonds), the difference may constitute original issue discount ("OID"). U.S. Holders of Taxable Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Taxable Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Taxable Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Taxable Bond.

***Sale or Other Taxable Disposition of the Taxable Bonds.*** Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the City and County) or other disposition of a Taxable Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Taxable Bond (generally, the purchase price paid by the U.S. Holder for the Taxable Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Taxable Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Taxable Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Taxable Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

***Information Reporting and Backup Withholding.*** Payments on the Taxable Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Taxable Bonds may be subject to backup withholding at the current rate of 28% with respect to "reportable payments," which include interest paid on the Taxable Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Taxable Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the



backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

#### **Non-U.S. Holders**

**Interest.** Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," payments of principal of, and interest on, any Taxable Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the City and County through stock ownership and (2) a bank which acquires such Taxable Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Taxable Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

**Disposition of the Taxable Bonds.** Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City and County) or other disposition of a Taxable Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the City and County) or other disposition and certain other conditions are met.

**U.S. Federal Estate Tax.** A Taxable Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Taxable Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

**Information Reporting and Backup Withholding.** Subject to the discussion below under the heading "FATCA," under current U.S. Treasury Regulations, payments of principal and interest on any Taxable Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable Bond or a financial institution holding the Taxable Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 28%.

#### **Foreign Account Tax Compliance Act ("FATCA")—U.S. Holders and Non-U.S. Holders**

Sections 1471 through 1474 of the Code, impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under the Taxable Bonds and sales proceeds of Taxable Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and will apply to (i) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2016 and (iii) certain "pass-thru" payments no earlier than January 1, 2017. Prospective investors should consult their own tax advisors

regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Taxable Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Taxable Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

### **VERIFICATION**

Causey Demgen & Moore P.C., independent public accountants (the "Verification Agent"), will verify from the information provided by the Underwriters the mathematical accuracy as of the date of issuance of the Series 2015 Bonds of (1) the computations contained in the schedules provided by the Underwriters to determine that the anticipated receipts from the securities and cash deposits listed in such schedules to be held in escrow will be sufficient to pay when due the principal, interest and any call premium payment requirements of the Refunded Bonds, and (2) the computations of yield on both the Escrow Securities and the Series 2015 Bonds contained in the schedules provided to Bond Counsel for use in its determination that the interest on the Series 2015 Bonds is excluded from gross income for federal income tax purposes. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the principal of and interest on the Series 2015 Bonds will be paid as described in the schedules provided to them, or the exclusion of the interest on the Series 2015 Bonds from gross income for federal income tax purposes.

### **APPROVAL OF LEGAL PROCEEDINGS**

The validity of the Series 2015 Bonds and certain other legal matters are subject to the approving opinions of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City and County. Complete copies of the proposed forms of Bond Counsel opinions are contained in Appendix E. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Alston Hunt Floyd & Ing, Honolulu, Hawaii, and Katten Muchin Rosenman, New York, New York.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the City and County will undertake in a Continuing Disclosure Certificate, the form of which is set forth in Appendix D (the "Continuing Disclosure Certificate"), to provide to the Municipal Securities Rulemaking Board on an annual basis certain financial and operating data concerning the Department, financial statements, notice of certain events and certain other notices, all as described in the Continuing Disclosure Certificate, provided that if the inclusion or format of such information is changed in any future official statement, annual reports provided by the City and County thereafter may instead contain or include by reference information of the type included in that official statement as so changed or if different the type of equivalent information included in the most recent official statement. The undertaking is an obligation of the Department that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Bonds are third party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriters to purchase the Series 2015 Bonds.

During the last five years, the City and County has failed to report, or failed to report on a timely basis, the City and County's voluntary termination of coverage of its General Obligation Bonds by Standard & Poor's Ratings Services, an upgraded rating of the City and County's Wastewater System Revenue Bonds by Standard & Poor's Ratings Services and the recalibration of ratings of the City and County's Wastewater System Revenue Bonds by Fitch Ratings and Moody's Investors Service. The City and County has policies and procedures in place to enhance compliance with its continuing disclosure undertakings, including its undertaking in the Continuing Disclosure Certificate. The City and County also has engaged a third-party service provider to assist in the preparation and filing of annual reports and notices of listed events under the Continuing Disclosure Certificate and previous continuing disclosure undertakings.

A failure by the City and County to comply with the Continuing Disclosure Certificate will not constitute an event of default of the Bonds, although any Beneficial Owner of the Bonds may bring action to compel the City and County to comply with its obligations under the Continuing Disclosure Certificate. Any such failure must be reported in accordance with Rule 15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

#### MISCELLANEOUS

Additional information may be obtained, upon request, from either the Department of Budget and Fiscal Services or the Department of Environmental Services of the City and County.

Reference in this Official Statement to the Act, the City Charter, the Bond Resolutions, the Series 2015 Resolutions and the Series 2015 Certificates do not purport to be complete. Refer to the Act, the City Charter, the Bond Resolutions, the Series 2015 Resolutions and the Series 2015 Certificates for full and complete details of their provisions. Copies of the City Charter, the Bond Resolutions and the Series 2015 Resolutions are on file with the City Clerk of the City and County.

The agreements of the City and County with holders of the Series 2015 Bonds are fully set forth in the Bond Resolution and the Series 2015 Resolution. Neither any advertisement of the Series 2015 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2015 Bonds.

Any statements in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are intended merely as expressions of opinion or estimates, and not as representations of fact, and no representation is made that any of the estimates will be realized.

The City and County's use of certain information included in this Official Statement has been furnished or reviewed and authorized by the sources described below. While the City and County believes that these sources are reliable, the City and County has not independently verified this information and does not guarantee the accuracy or completeness of the information furnished by the respective sources. The City and County is relying on certificates from certain sources, to be delivered at or prior to the time of delivery of the Series 2015 Bonds, as to the accuracy of such information provided or authorized by such sources.

The information regarding DTC and DTC's book-entry system has been furnished by DTC.

Extracts of the financial statements of the City and County as of June 30, 2014, relating to the Sewer Fund, together with the auditor's report thereon, may be found at <http://www.co.honolulu.gov/budget/cafr.htm>.

The execution and delivery of this Official Statement by the Director of Environmental Services and the Director of Budget and Fiscal Services have been duly authorized by the City and County.

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Director of Budget and Fiscal Services  
City and County of Honolulu

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Director of Environmental Services  
City and County of Honolulu

**APPENDIX A**  
**ECONOMIC AND DEMOGRAPHIC FACTORS**

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## APPENDIX A

### ECONOMIC AND DEMOGRAPHIC FACTORS

#### Introduction

The City and County of Honolulu (the “City and County”), which includes the entire island of Oahu and a number of small outlying islands, is a major metropolitan city with a population of 983,429 (approximately 70% of the State’s population) as of July 1, 2013. Honolulu’s underlying economy is strong, supported by several diversified areas, which include tourism, the federal government and military operations, State and local governments, manufacturing, construction, real estate, education, research and science, trade and services, communications, finance, and transportation.

Oahu is situated between 21 degrees and 22 degrees north latitude, just below the Tropic of Cancer. The climate has an average mean winter temperature of 70.2 degrees and an average mean summer temperature of 78.6 degrees. Average rainfall varies widely from one area of Oahu to another. Rainfall is comparatively light in the leeward coastal area where the larger part of the population is located. Waikiki, located on the leeward side of Oahu, has a dry climate with annual precipitation averaging about 27 inches; precipitation in the upper reaches of the Koolau mountains averages about 400 inches a year and provides an adequate supply of water for irrigation use and retention in large subterranean reservoirs for household and industrial uses.

The following material pertaining to economic factors in the City and County has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism (“DBEDT”) First Quarter 2015 and Second Quarter 2015 Quarterly Statistical Economic Reports (“QSER”) or from other materials prepared by DBEDT, some of which may be found at <http://dbedt.hawaii.gov/>.

#### Certain Economic Indicators

Overall economic conditions were positive in the City and County in the fourth quarter of 2014. The unemployment rate decreased, the value of private building permits and total non-agricultural wage and salary jobs increased. Total visitor arrivals by air and visitor days both increased.

*Employment.* The following table sets forth certain employment statistics for the City and County in 2013 and 2014. As indicated, the unemployment rate for the City and County decreased in 2014. The City and County’s average annual unemployment rate of 4.0% compares favorably to the unemployment rates for the State (4.8% in 2013 and 4.3% in 2014) and the nation as a whole (7.4% in 2013 and 6.2% in 2014).

	EMPLOYMENT STATISTICS*					
	4 <sup>th</sup> Quarter			Year-to-Date		
	2013	2014	% Change Year Ago	2013	2014	% Change Year Ago
Civilian Labor Force	460,950	472,500	2.5	456,800	467,400	2.3
Civilian Employment	441,750	455,000	3.0	437,250	448,850	2.7
Unemployed	19,200	17,500	-8.9	19,600	18,550	-5.4
Unemployment Rate	4.2%	3.7%	-0.5	4.3%	4.0%	-0.3
Total Job Count (non-agricultural)	464,500	468,950	1.0	455,700	460,200	1.0

\* Data based on State of Hawaii Department of Labor & Industrial Relations monthly and Annual data as of February 2015.

Source: State of Hawaii Department of Labor & Industrial Relations, Department of Business, Economic Development & Tourism, and Department of Taxation.

*Personal Income.* In recent years, per capita personal income for Honolulu residents has consistently been higher than for the State of Hawaii as a whole. The following table sets forth the per capita personal income for Honolulu residents in comparison to the State for the years 2010 through 2014. As indicated, the per capital personal income in the City and County in 2013 was \$48,798. This increase exceeded the State's per capita personal income by \$3,594 for the same year and the nation's per capita personal income by \$4,033.

#### PER CAPITA PERSONAL INCOME

<u>Year</u>	<u>Honolulu</u>	<u>State of Hawaii</u>	<u>United States</u>
2010	45,202	41,668	40,124
2011	46,605	42,989	42,309
2012	48,250	44,578	44,194
2013	48,798	45,204	44,765
2014	N/A	46,396	N/A

*Source: U.S. Department of Commerce, Bureau of Economic Analysis.*

*Housing Market.* Median home resale prices for single family homes and condominiums in Honolulu increased annually from 2012 through 2014. Since the global economic downturn in 2008 and 2009, median resale prices in the Honolulu housing market have rebounded to record heights. The following table presents median resale prices for single family homes and condominiums in Honolulu between 2010 and 2014:

#### MEDIAN HOME RESALE PRICES

<u>Year</u>	<u>Single Family Homes</u>		<u>Condominiums</u>	
	<u>Median Resale Price</u>	<u>% Change</u>	<u>Median Resale Price</u>	<u>% Change</u>
2010	593,000	3.1	305,000	0.0
2011	575,000	-3.0	300,000	-1.6
2012	620,000	7.8	317,500	5.8
2013	650,000	4.8	332,000	4.6
2014	675,000	4.6	350,000	5.4

*Source: State of Hawaii Department of Business, Economic Development and Tourism.*

### State and County Governments

With Honolulu as the State capital, most State government activity is concentrated on the Island of Oahu. In 2014, the State government generated 74,550 jobs, of which approximately 76% were located on Oahu. The largest number of State employees work in public education and the State university system, with approximately 80% of these employed on Oahu. In addition, the City and County government employed approximately 12,100 individuals in 2014.

### Federal Government and Military

The Federal government plays an important role in Hawaii's economy. According recent data available from the U.S. Bureau of Economic Analysis ("BEA"), the total compensation of employees ("COE") of federal government employees in Hawaii was \$8.5 billion in 2013, about the same as in 2012. The total COE of combined military and civilian federal employees in Hawaii accounted for about 20.7% of Hawaii's total COE in 2013. Between 2003 and 2013, the annual average compounded growth rate for COE was 4.2% for civilian and 6.0% for military personnel in Hawaii. The military personnel accounted for 59.8% of the total federal COE in 2013. The federal government accounted for about 13.6% of State GDP in 2012, a majority of which is defense related. The BEA data also shows that the earnings of federal government employees in the first quarter of 2014 increased 0.32% over the same quarter of 2013. In 2013, the earnings of federal government employees decreased 0.26% from the previous year.

In 2013, more than 72,500 people served in the military or were employed by the DoD, comprised of 49,000 active-duty service members, 18,000 DoD civilian employees, and 5,500 National Guard and Reserve

members. Generally, the median earnings for active duty service members and DoD civilians are higher than that of other full-time employees in Hawaii.

In April 2012, the U.S. and Japan announced an agreement for the relocation of approximately 9,000 marines currently stationed in Okinawa. DoD officials expect that approximately 5,000 of these marines will be transferred to Guam, and the remaining 4,000 will be transferred to other Pacific locations, including Hawaii and Australia. The timeline for the relocation and the number of potential transferees to Hawaii are subject to further agreement.

The U.S. Army recently completed a Supplemental Programmatic Environmental Assessment for its Army 2020 force structure realignment. The assessment evaluates a scenario in which the Army would eliminate 16,606 soldiers and civilians from Schofield Barracks and 3,786 from Fort Shafter, both of which are located on the island of Oahu. In response, the Chamber of Commerce of Hawaii's Military Affairs Council launched a campaign to maintain the number of military members in Hawaii and acquired signatures on a petition to keep troops in Hawaii. The Army held a "listening session" on the impact of reducing forces in Hawaii in January 2015.

Future levels of federal funding (including defense funding) in Hawaii are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit. The federal budget sequestration has not had a material adverse effect on the City and County or the State.

## **Finance**

As the financial center of the State of Hawaii, Honolulu is served by a full range of financial institutions, including banks, savings and loan associations and financial services companies. Honolulu currently has six Hawaii-chartered banks, one Hawaii-chartered financial services company, two federally-chartered savings associations, one national bank and two interstate branch banks with combined assets totaling \$46.4 billion as of December 2014, as reported by the Federal Deposit Insurance Corporation.

## **Transportation**

*Land Transportation.* All parts of the City and County are connected by a comprehensive network of roads, highways, and freeways, and all of the populated areas of the island are served by a bus transit system (TheBus) with ridership of approximately 74 million annually. According to the 2014 Public Transportation Fact Book published by the American Public Transportation Association, the City and County hosts the 23<sup>rd</sup> largest transit agency in the nation.

The City and County is constructing a new 20-mile fixed guideway mass transit system to provide rail service along the island's east-west corridor between Kapolei and downtown Honolulu (Ala Moana Center). Over 60% of the City and County's population currently lives within this corridor. The project is being built in four phases. The first phase covers the initial 6.5-mile segment of the fixed guideway system from Kapolei to Pearl City. The City and County awarded a \$482.9 million design-build contract for the first phase in October 2009, and work commenced on this phase in February 2011. The second phase covers the 3.9-mile segment from Pearl City to Aloha Stadium. The City and County awarded a \$372 million design-build contract for this phase in March 2011. This phase is also under construction. The remaining two phases and train stations along the route will be constructed under separate design-build contracts.

In March 2011, the City and County awarded a \$574 million design-build contract for the project's "core systems" (train vehicles and system control center), including an initial order of 80 train cars. The contractor will be responsible for operating and maintaining the rail system. Construction of the system is expected to be funded with proceeds from the 0.5% excise tax surcharge implemented by the City and County in January 2007, proceeds of future general obligation bond issues, and grants from the U.S. Department of Transportation, Federal Transit Administration. The Hawaii State Legislature recently approved a five year extension of City and County's 0.5% excise tax surcharge for an additional five years from 2022 to 2027. Construction and operation of this system is the sole responsibility of the City and County.

*Air Transportation.* Honolulu is the hub of air and sea transportation for the entire Pacific. Honolulu International Airport (HNL) is located approximately five miles by highway from the center of downtown of



Honolulu. The Federal Aviation Administration and the 2013 Airports Council International Worldwide Traffic Report reported that HNL was the 27<sup>th</sup> largest U.S. Airport in 2013 based on the number of enplaned passengers. In fiscal year 2013, HNL recorded 284,532 aircraft operations as compared to 266,326 for fiscal year 2012. In addition, HNL passenger count increased 6.6% to 19,778,282 in fiscal year 2013 from 18,556,491 in fiscal year 2012.

*Sea Transportation.* Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor during fiscal years 2011-2013 amounted to 9.8 million, 10 million, and 10.9 million short tons, respectively. The Department of Transportation, Harbor Division manages, maintains and operates the State's Harbors Systems to provide for the efficient movement of cargo and passengers. The U.S. military moves most of its cargo through the State's Harbors Systems.

## Construction

Construction was one of the major contributors to job growth in Hawaii over the past few years. In the fourth quarter of 2014, private building authorizations in Honolulu increased \$121.2 million or 26.1% compared with the fourth quarter of 2013. For the full year of 2014, private building authorizations in Honolulu increased \$205.9 million or 11.0% compared to 2013.

The following table shows the estimated value of construction authorizations for private buildings for the City and County and for the State as a whole for the last five years.

**ESTIMATED VALUE OF BUILDING PERMITS**  
(Dollars in Thousands)

Year	State *	% Change from Prior Year	City & County of Honolulu <sup>(1)</sup>	% Change from Prior Year
2010	1,980,296	-0.9	1,357,314	8.8
2011	1,858,763	-6.1	1,272,923	-6.2
2012	2,643,841	42.2	1,769,454	39.0
2013	2,720,519	2.9	1,866,352	5.5
2014	3,315,078	21.9	2,072,202	11.0

\* Kauai County data consists of residential data only.

Source: State of Hawaii Department of Business, Economic Development and Tourism  
(compiled from data collected by county building departments).

Significant development projects which are currently under construction or in the later planning stages on the island of Oahu include:

- The Airports Division's "New Day" modernization program commenced in 2013. The program includes significant capital improvements such as expanding HNL's Inter-Island terminal, constructing consolidated car rental facilities at HNL and Kahalui, Maui, and installing energy saving equipment in airports statewide.
- The Howard Hughes Corporation is developing a master-planned community on 60 acres in Kakaako known as Ward Village. The development will include 4,000 high-rise residences and more than one million square feet of retail and commercial space.
- General Growth Properties is undertaking a \$572 million expansion and renovation of its Ala Moana Shopping Center. Expansion plans include the addition of a new 167,000-square-foot, three-level Bloomingdale's store, a new 186,000-square-foot, three-level Nordstrom store and an additional 300,000-square-feet of in-line mall retail space. Attached to the shopping center will also be two luxury residential apartment projects built over parking podiums. One Ala Moana, a

23-story tower containing 206 luxury residential units, was completed in late 2014. Park Lane, a nine-story complex containing 215 luxury residential units is currently under construction.

- Taubman Properties is undertaking a \$300 million redevelopment of the International Market Place in Waikiki. The center will be anchored by a new 80,000-square-foot Saks Fifth Avenue to be the only full-line department store in Waikiki, and will include 750 dedicated on-site parking spaces.
- OliverMcMillan is developing Symphony Honolulu, a \$200 million project consisting of 388 residential condominiums in a 45-story tower.
- Downtown Capital LLC is redeveloping the former Honolulu Advertiser building and adjacent property into a \$400 million, two-tower workforce housing condominium project containing 1045 units.
- Castle & Cooke Homes Hawaii plans to develop Koa Ridge, which will consist of 3,500 single- and multi-family homes (including 30% affordable homes), a medical center, shopping outlets and recreation areas on 576 acres between Mililani and Waipio.
- D.R. Horton – Schuler Homes has obtained all discretionary land use approvals to develop Hoopili in West Oahu, which will consist of 11,750 single- and multi-family homes, commercial and light industrial space, community facilities, three elementary schools, one middle school, a high school, parks and open space, and agricultural areas on 1,289 acres of land. The City Council recently approved the zoning for this project.

## **Trade and Services**

The economy of both the City and County and the State as a whole is heavily trade and service oriented, largely because of the heavy volume of purchases by visitors to the State. According to the State's Department of Taxation, the State's general excise tax base for trade and service activities exceeded \$54.4 billion in 2013, with retail, wholesale and service activities accounting for the majority. Of the State's 617,600 non-agricultural jobs in 2013, retail and wholesale trade together accounted for 87,600 jobs, or 14.2% of the total, and professional and business services, financial services, educational services, food and accommodation services and other services together accounted for 334,900 jobs, or 54.2% of the total.

## **Agriculture and Diversified Manufacturing**

Agriculture and manufacturing are relatively small sectors in the State's and the City and County's economy.

Agricultural sales on Oahu totaled \$161 million in 2012, accounting for approximately 25% of the State's agricultural production. About 20% of the land on Oahu is zoned for agriculture. With the decline of the sugar and pineapple industries, agricultural lands are returning to an era of small farms growing diversified agricultural products.

Manufacturing on Oahu consists principally of producing cement (one plant), refining oil (two refineries), and converting oil into synthetic natural gas (one plant). Other activities include the manufacturing of garments, plastic and concrete pipe, jewelry and gift items, and the processing and packaging of tropical fruits, nuts, and other food items.

## **Energy**

In December 2014, Hawaiian Electric Industries, Inc. (HEI), which owns Hawaiian Electric Company, Inc., Maui Electric Company, Ltd. and Hawaii Electric Light Company, Inc., entered into a \$4.3 billion merger agreement with NextEra Energy, Inc. The transaction would include divestment of HEI's banking subsidiary, American Savings Bank, FSB into a separate publicly-traded company. The transaction is subject to approval by HEI shareholders as well as State and federal regulators.

In October 2012, the City and County completed a \$300 million expansion of its H-Power waste-to-energy facility, increasing its capacity to over 900,000 tons of municipal solid waste per year. The project included a new boiler and new air pollution control equipment mandated by federal law which became operational in April 2011.

In March 2011, First Wind completed Oahu's first large-scale commercial wind farm on the North Shore of the island. At full capacity, the project's twelve turbines produce enough power for up to 7,700 homes on Oahu.

Several renewable energy projects are currently in the planning stages for Oahu, including a 50-megawatt biofuel power plant on the U.S. Army's Schofield Barracks, a 50-megawatt solar farm to be built by SunEdison in the Waipio Gentry/Wahiawa area, a 45-megawatt wind power project to be developed by Champlin Hawaii Wind Holdings in Kahuku, and a 30-megawatt solar farm developed by Eurus Energy America (owned by Toyota and Tokyo Electric Power) in Waianae.

### **Education, Research and Science**

The University of Hawaii was established in 1907 and currently consists of a research university at Manoa, baccalaureate institutions at Hilo and West Oahu, and a system of seven community colleges on the islands of Kauai, Oahu, Maui, and Hawaii. The State's only law school is located at Manoa and only medical school (with a new cancer research center) is located at Kakaako in downtown Honolulu. In the fall of 2014, 57,284 students attended the University of Hawaii System, 19,378 of them on the Manoa campus.

In addition to the University of Hawaii System, there are also three private universities and one private college on Oahu. Federal government research agencies in Honolulu include the U.S. Bureau of Commercial Fisheries and the Environmental Science Services Administration. Among private research organizations on Oahu are the Oceanic Institute and the Bishop Museum. The three high technology centers located on Oahu are the Mililani Technology Park, the Kaimuki Technology Enterprise, and the Manoa Innovation Center.

### **Visitor Industry**

The visitor industry encompasses an array of businesses, including hotels, restaurants, airlines, travel agencies, taxis, tour-bus operators, gift shops and other service and recreational industries.

The total number of visitors arriving by air to Hawaii increased 2.0% in 2014, compared to 2013. The total average daily census was up 1.1% from the previous year. In 2014, 8.2 million visitors arrived in Hawaii by air.

In 2014, total visitor arrivals on domestic flights increased 1.2% compared to 2013, and arrivals on international flights increased 3.4% compared to the prior year. In 2014, 5.5 million domestic visitors and 2.7 million international visitors arrived by air. In 2014, arrivals from the U.S. West increased 1.4%, arrivals from the U.S. East increased 1.1% and arrivals from Japan decreased 0.5% from the previous year.

Due to shorter lengths of stay, the average total daily visitor census increased less than the growth of visitor arrivals in 2014. The total average daily visitor census was up 1.1% over 2013. In 2014, the domestic average daily census increased 0.7% and international average daily census increased 2.1% from the previous year. Nominal visitor expenditures by air totaled \$14,705.8 million in 2014, a 2.5% increase over the previous year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 3.4% or 366,128 seats in 2014; domestic seats increased 4.5% while international seats increased 1% compared to 2013.

In 2014, the statewide hotel occupancy rate averaged 77%, 0.5 percentage points higher than in 2013.

## SELECTED STATE OF HAWAII AND OAHU VISITOR STATISTICS

	Year Ended December 31				
	2010	2011	2012	2013	2014
Arrivals by Air <sup>(1)</sup> – State	6,916,894	7,174,397	7,867,143	8,003,474	8,159,608
Domestic	4,957,352	5,127,291	5,403,025	5,405,300	5,472,185
International	1,959,542	2,047,106	2,464,118	2,598,174	2,687,423
Arrivals by Air <sup>(1)</sup> – Oahu	4,273,658	4,401,624	4,904,045	5,044,276	5,159,078
Domestic	2,532,365	2,592,014	2,734,643	2,732,456	2,763,121
International	1,741,292	1,809,609	2,169,402	2,311,820	2,395,956
Average Daily Visitor Census <sup>(1)</sup> – State	177,949	185,824	201,267	202,876	205,044
Domestic	136,407	142,027	148,887	149,213	150,254
International	41,542	43,797	52,380	53,663	54,790
Visitor Expenditures – State <sup>(2)</sup>	\$10,967	\$12,047	\$14,193	\$14,352	\$14,706
Hotel Occupancy Rate – State	70.7%	73.3%	76.9%	76.5%	77.0%
Hotel Occupancy Rate – Oahu	78.2%	80.7%	84.7%	83.8%	84.4%

<sup>(1)</sup> In thousands. 2014 data are preliminary.

<sup>(2)</sup> In millions of dollars. By persons arriving by air and staying overnight or longer (excludes supplemental business expenditures). 2014 data are preliminary.

Sources: State of Hawaii Department of Business, Economic Development & Tourism, PFK-Hawaii and Hospitality Advisors LLC.

Honolulu's profile as a visitor destination is enhanced by its role as host of numerous professional and trade conferences and conventions, as well as major sports events.

Conferences and conventions held in Honolulu annually attract thousands of visiting participants statewide, nationally and internationally. The primary site for these events is the Hawaii Convention Center, which is located near Waikiki hotel accommodations and visitor attractions.

The City and County continues to attract major investment to support the visitor industry, including renovation of hotels, restaurants, and recreation facilities.

Significant development projects related to the visitor industry which are currently under construction or in the later planning stages in or around Waikiki include: (1) the \$760 million renovation of Hilton Hawaiian Village, including the addition of a new 37-story, 418-unit luxury time-share tower, (2) the \$500 million renovation and expansion of the Princess Kaiulani Hotel, (3) a new \$200 million, 26-story hotel and condominium complex fronting Waikiki Beach, (4) a new \$375 million, 34-story, 459-unit condominium hotel in Waikiki branded as The Ritz-Carlton Residences, and (5) a \$300 million redevelopment of the International Market Place in Waikiki.

Significant development projects related to the visitor industry in other parts of Oahu include: (1) the extensive renovation of the Ihilani Resort & Spa at Ko'Olina Resort, which is scheduled to reopen under the Four Seasons Hotels and Resorts brand, (2) the expansion of Disney's Aulani resort at Ko'Olina, and (3) a \$50 million renovation of Turtle Bay Resort on Oahu's North Shore.

**APPENDIX B**

**SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

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## **APPENDIX B**

### **SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTIONS**

The First Bond Resolution and the Second Bond Resolution contain terms and conditions relating to the issuance of the Senior Bonds and the Junior Bonds, respectively, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Bond Resolutions, to which reference is hereby made.

Most of the provisions summarized below are common to both the First Bond Resolution and the Second Bond Resolution. Provisions taken from either the First Bond Resolution or the Second Bond Resolution are indicated. Copies of the Bond Resolutions are available from the City and County.

#### **Certain Definitions**

Certain definitions contained in the Bond Resolutions are summarized below. This summary does not purport to be comprehensive or definitive, and is subject to all provisions of the Bond Resolutions, to which reference is hereby made. Copies of the Bond Resolution are available from the Department of Budget and Fiscal Services or the Department of Environmental Services of the City and County.

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**APPENDIX C**  
**BOOK-ENTRY SYSTEM**

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## APPENDIX C

### BOOK-ENTRY SYSTEM

The information in this Appendix C concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and neither the City and County nor the Underwriters takes responsibility for the completeness or accuracy thereof. Neither the City and County nor the Underwriters can or does give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2015 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2015 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2015 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2015 Bonds. The Series 2015 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of each series of the Series 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any series and maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such series and maturity.

*DTC and Its Participants.* DTC, the world's largest securities depository is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

*Purchase of Ownership Interest.* Purchases of the Series 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2015 Bonds, except in the event that use of the book-entry system for the Series 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

*Notices.* Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2015 Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City and County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

*Payments.* Principal, redemption proceeds, distributions, and interest payments on the Series 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City and County or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent or the City and County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and County or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

*Discontinuance of Book-Entry System.* DTC may discontinue providing its services as depository with respect to the Series 2015 Bonds at any time by giving reasonable notice to the City and County or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The City and County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

**APPENDIX D**

**PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE**

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## APPENDIX D

### PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of Honolulu, Hawaii (the "City and County") in connection with the issuance of \$000,000,000 Wastewater System Revenue Bonds (**First Bond Resolution**), Senior Series 2015A and Senior Series 2015B (the "Bonds") and \$000,000,000 (**Second Bond Resolution**) Junior Series 2015C and Junior Series 2015D. The Bonds are being issued pursuant to Chapter 49, Hawaii Revised Statutes, and the Revised Charter of the City and County of Honolulu, as amended (collectively, the "Act"), and the proceedings of the City Council, including Resolutions No. 98-195 and the applicable Series Resolutions relating to the Bonds, and a Certificate of the Director of Budget and Fiscal Services of the City and County, acknowledged and agreed to by the Director of Environmental Services of the City and County dated \_\_\_\_\_, 2015 (the "Certificate"). The City and County covenants and agrees as follows:

Section 1. **Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City and County for the benefit of the holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

Section 2. **Definitions.** In addition to the definitions set forth in the Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"**Annual Report**" means any Annual Report provided by the City and County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"**Beneficial Owner**" means any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, to make investment decisions concerning the ownership of, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"**Department**" means the Department of Environmental Services of the City and County.

"**Dissemination Agent**" means the City and County, or any successor Dissemination Agent designated in writing by the City and County and which has filed with the City and County a written acceptance of such designation.

"**Listed Events**" means any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"**MSRB**" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

"**Official Statement**" shall mean the Official Statement, dated \_\_\_\_\_, 2015, prepared and distributed in connection with the initial sale of the Bonds.

"**Participating Underwriters**" means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"**Rule**" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. **Provision of Annual Reports.**

(a) The City and County shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of each fiscal year of the City and County (presently June 30), commencing with the report for the fiscal

year ending June 30, 2015, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. If the City and County's fiscal year changes, the City and County, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) In a timely manner prior to the date set forth in subsection (a) above, the City and County shall provide the Annual Report to the Dissemination Agent (if other than the City and County). If the City and County is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City and County shall send a notice to the MSRB in substantially the form attached as Exhibit A. The audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the City and County) file a report with the City and County certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

#### Section 4. *Content of Annual Reports.*

(a) The Annual Report shall contain or incorporate by reference the following information:

(i) Audited financial statements of the Department for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Department's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement relating to the Bonds, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available;

(ii) Budgeted revenues and expenditures of the Department for the current fiscal year;

(iii) To the extent not provided in the audited financial statements, historical information of the type shown in Tables 34 and 35 of the Official Statement, entitled "Department of Environmental Services Sewer Fund Enterprise Fund Statement of Revenues, Expenses and Charges in Retained Earnings (Deficit)" and "Department of Environmental Services Sewer Fund Enterprise Fund Balance Sheet," respectively; and

(iv) To the extent not provided in the audited financial statements, historical information of the type shown in Tables 32 and 33 of the Official Statement, entitled "Outstanding Wastewater Revenue Bonds" and "Revenue Bond Debt Service Requirements," respectively.

(b) Information contained in an Annual Report for any fiscal year containing any modified operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Report shall present a comparison between the financial statements or information prepared on the basis of modified accounting principles and those prepared on the basis of former accounting principles.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues of the City and County or related public entities, which have been made available to the public on the MSRB's website. The City and County shall clearly identify each such other document so included by reference.

If the inclusion or format of the information referenced above is changed in any future official statement, thereafter the Annual Report shall instead contain or include by reference information of the type included in that official statement as so changed or if different the type of equivalent information included in the City and County's most recent official statement.



Section 5.        *Reporting of Significant Events.*

(a) Pursuant to the provisions of this Section 5, the City and County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- i. Principal and interest payment delinquencies;
- ii. Unscheduled draws on debt service reserves reflecting financial difficulties;
- iii. Unscheduled draws on credit enhancements reflecting financial difficulties;
- iv. Substitution of credit or liquidity providers, or their failure to perform;
- v. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- vi. Tender offers;
- vii. Defeasances;
- viii. Rating changes; or
- ix. Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The City and County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

- i. Unless described in paragraph 5(a)(v), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- ii. Modifications to rights of Bondholders;
- iii. Optional, unscheduled or contingent Bond calls;
- iv. Release, substitution, or sale of property securing repayment of the Bonds;
- v. Non-payment related defaults;
- vi. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
- vii. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The City and County shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4, as provided in Section 4.

(d) Whenever the City and County obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City and County shall determine if such event would be material under applicable federal securities laws.

(e) If the City and County learns of the occurrence of a Listed Event described in Section 5(a), or determines that a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City and County shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

**Section 6. Termination of Reporting Obligation.** The City and County's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment of amounts fully sufficient to pay and discharge the Bonds, or upon delivery to the City and County or the Dissemination Agent (if other than the City and County) of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Bonds, the City and County shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

**Section 7. Dissemination Agent.** From time to time, the City and County may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City and County shall be the Dissemination Agent. The initial Dissemination Agent shall be the City and County. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The Dissemination Agent shall not be responsible for the form or content of any Annual Report, notice of Listed Event, or other document furnished to the Dissemination Agent by the City and County. The Dissemination Agent shall receive reasonable compensation for its services provided hereunder. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the City and County.

**Section 8. Amendment Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the City and County may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, change in law (including rules or regulations) or in interpretations thereof, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Certificate for amendments to the Certificate with the consent of Holders, or (ii) does not, in the opinion of the City and County, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City and County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City and County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if

feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. ***Additional Information.*** Nothing in this Disclosure Certificate shall be deemed to prevent the City and County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City and County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City and County shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. ***Default.*** In the event of a failure of the City and County to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City and County or the Dissemination Agent (if other than the City and County), as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Certificate, and the sole remedy under this Disclosure Certificate in the event of any failure of the City and County or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. ***Duties, Immunities and Liabilities of Dissemination Agent.*** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City and County agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the City and County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. ***Beneficiaries.*** This Disclosure Certificate shall inure solely to the benefit of the City and County, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: August \_\_, 2015

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Nelson H. Koyanagi, Jr.  
Director of Budget and Fiscal Services  
City and County of Honolulu

The above and foregoing certificate is hereby  
approved as to form and legality this \_\_\_\_ day  
of August, 2015.

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Donna Y. L. Leong  
Corporation Counsel  
City and County of Honolulu

**EXHIBIT A**

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE  
TO FILE ANNUAL REPORT**

Name of Issuer: City and County of Honolulu, Hawaii

Name of Bond Issue: Wastewater System Revenue Bonds (First Bond Resolution),  
Senior Series 2015 and (Second Bond Resolution) Junior Series 2015

Date of Issuance: August \_\_, 2015

NOTICE IS HEREBY GIVEN that the City and County of Honolulu, Hawaii (the "City and County") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated August \_\_, 2015, executed by the City and County for the benefit of the holders and beneficial owners of the above-referenced Bonds. The City and County anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CITY AND COUNTY OF HONOLULU, HAWAII

By: \_\_\_\_\_  
Authorized Signatory

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**APPENDIX E**

**PROPOSED FORM OF OPINIONS OF BOND COUNSEL**

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**APPENDIX E**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[Date of Delivery]

City and County of Honolulu  
Honolulu, Hawaii

Re: City and County of Honolulu  
Wastewater System Revenue Bonds  
(First Bond Resolution) Senior Series 2015A and 2015B and  
(Second Bond Resolution) Junior Series 2015C and 2015D  
(Final Opinion)

Ladies and Gentlemen:



CITY COUNCIL  
CITY AND COUNTY OF HONOLULU  
HONOLULU, HAWAII  
C E R T I F I C A T E

**RESOLUTION 15-175**

Introduced: 06/10/15

By: CHAIR ERNEST MARTIN (BR)

Committee: BUDGET

Title: RESOLUTION AUTHORIZING THE DIRECTOR OF BUDGET AND FISCAL SERVICES TO ISSUE AND SELL NOT TO EXCEED \$701,500,000 PRINCIPAL AMOUNT OF WASTEWATER SYSTEM REVENUE BONDS, SENIOR SERIES 2015 AND RELATED MATTERS.

Voting Legend: \* = Aye w/Reservations

06/17/15	BUDGET	CR-261 – RESOLUTION REPORTED OUT OF COMMITTEE FOR ADOPTION.
07/08/15	COUNCIL	CR-261 AND RESOLUTION 15-175 WERE ADOPTED. 8 AYES: ANDERSON, ELEFANTE, FUKUNAGA, KOBAYASHI, MARTIN, MENOR, OZAWA, PINE. 1 ABSENT: MANAHAN.

I hereby certify that the above is a true record of action by the Council of the City and County of Honolulu on this RESOLUTION

  
GLEN TAKAHASHI, CITY CLERK

  
ERNEST Y. MARTIN, CHAIR AND PRESIDING OFFICER